Manitoba

March 31, 2006

OFFICE OF THE

AUDITOR GENERAL

Operations of the Office

Vision

As a leader in promoting enhanced accountability of government to the citizens of Manitoba, the Office of the Auditor General will contribute to greater public trust and confidence in the institutions of government.

Mission

To contribute to effective governance by the Manitoba Legislature, we provide the Members of the Legislative Assembly with independent assurance and advice on:

government accountability information;

compliance with legislative authorities; and

the operational performance of government.

Values

IN INTERPERSONAL RELATIONSHIPS

Respect ***Honesty***

Integrity ***Openness***

IN ACHIEVING OUR VISION AND MISSION

Teamwork

Independence

Balanced Perspectives

Professional Excellence

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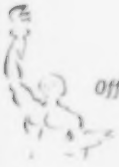

Office of the Auditor General
500 - 330 Portage Avenue
Winnipeg, Manitoba Canada R3C 0C4

July 2006

The Honourable George Hickes
Speaker of the House
Room 244, Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Sir:

I have the honour to transmit herewith our Annual Report on the Operations of the Office of the Auditor General for the year ended March 31, 2006 to be laid before Members of the Legislative Assembly in accordance with the provisions of Section 28 of The Auditor General Act.

Respectfully submitted,

Jon W. Singleton, CA•CISA
Auditor General

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This Report

This Report describes the functions and operations of the Office of the Auditor General and presents the audited financial statements for the Office for the year ended March 31, 2006. It is not a report on the results of the audits conducted, as this information is tabled in the Legislature separately.

Reflections of the Auditor General

This report represents the last report on operations during my term as Auditor General. As in past years, the report describes the useful work of the Office in identifying opportunities to improve the operation of a number of government programs and organizations, together with provincially funded not-for-profit organizations. It also highlights our work on governance, performance reporting and accountability processes.

I believe the effectiveness of the Office in these areas has improved significantly over the past 10 years, primarily due to the efforts of its highly professional team of individuals. I am regularly impressed by the passion that they bring to their work on behalf of the Members of the Legislative Assembly and the citizens of Manitoba. I thank all of them for making my job possible and at times exhilarating.

In this, my final report, I would like to single out one individual who, in my opinion, has accomplished more to strengthen the Office than anyone else in recent years. That individual is Ms. Bonnie Lysyk, Deputy Auditor General and Chief Operating Officer. The energy and professionalism she has brought to the work of the Office has been truly exceptional. I would like to take this opportunity to offer her my personal thanks and to acknowledge that, without her accomplishments, the Office would not be as advanced as it now is in providing effective services and advice to the Members of the Legislative Assembly.

In closing, I express a personal note of thanks and appreciation to the many citizens of Manitoba who have told me of their appreciation, both for my work, and the work of the Office. Believe me, there have been times when the knowledge of this support has helped sustain me through difficult times.

It has been a source of honour and pride for me to be able to serve Manitobans as Auditor General for the past ten years.

Jon W. Singleton, CA•CISA

Significant Accomplishments for 2005/06

- In June 2006, the Office contracted with an independent research firm to randomly survey Manitobans to assess public awareness of our Office, to measure the accomplishments of our desired outcomes as highlighted on page 22, and to track changes in public perception of the Office over time. Comparative results are presented for the survey of 2003. This year's survey indicated:
  - 44% (2003 - 28%) of Manitobans were aware of the Office;
  - 50% (2003 - 39%) of Manitobans believe that the Office helps to build greater public trust, confidence and accountability of governance to citizens;
  - 51% (2003 - 38%) of Manitobans believe that the work of the Office helps ensure the responsible and effective use of public monies; and
  - 45% (2003 - 40%) of Manitobans feel our work has a positive impact on government progress and operations.
- Our report on the ***Audit of the Public Accounts for the Year Ended March 31, 2005*** was publicly released in January 2006.

  We reported that we are encouraged by the significant steps taken by the Government with respect to planning and preparation in order to meet their goal of full summary budgeting and financial reporting focused on the Summary Financial Statements for the 2007/08 fiscal year. Theses steps included:
  - Eliminating all the exceptions to GAAP in the March 31, 2005 Summary Financial Statements;
  - Significant consultation with all entities currently consolidated in the Government Reporting Entity, as well as with school

divisions and others planned for consolidation by 2007/08;

- Reviewing changes needed for the budgeting process leading to the preparation of a Summary Budget that will enable Members of the Legislative Assembly to fully discuss the planned use of public resources and to fully evaluate the actual results achieved against the budget;

- Refocusing public communication solely from the Special Purpose Operating Fund Statements to the Summary Financial Statements and increasing "Discussion and Analysis" concerning the Summary Financial Statements for the March 31, 2005 publication of the Public Accounts;

- Eliminating the publication of unaudited fourth quarter reports and focusing public communication on audited results for the year ending March 31, 2005; and

- Reviewing potential changes needed to The Financial Administration Act and Balanced Budget Legislation. Changes to be considered may include:

  - A reference to public reporting in accordance with GAAP; and
  - Eliminating the requirement for audited Operating Fund Financial Statements.

This report continued to emphasize that we believe that the Special Purpose Operating Fund and Special Funds Financial Statements should not be used to assess the Government's performance in managing the Province's financial affairs and public resources because there are significant accounting policies used in the Special Purpose Operating Fund and Special Funds Financial Statements that are not in accordance with GAAP.

In addition, as we indicated above, we noted that there were very significant improvements reflected in the Summary Financial Statements for the year ended March 31, 2005 and they included the elimination of all the exceptions to Canadian Generally Accepted Accounting Principles (GAAP) by:

- Recognition of the infrastructure tangible capital assets;
- Full adoption of the new Government Reporting model;
- Full consolidation of non-devolved health facilities and the elimination of the deferred charges to them;
- Changes in accounting policies and correction of errors being restated;
- Expanded disclosure of the Province's related party transactions, contingent liabilities related to environmental liabilities, and the settlement of obligations under Treaty Land Entitlement agreements; and
- Full disclosure of public debt expense.

We also commended the Government for the recognition of liabilities associated with the Long Term Disability Income Plan.

- Our report ***An Examination of the Crocus Investment Fund***, which was released in May 2005, highlighted governance and operations issues that contributed to the halt of sale and redemption of shares on December 10, 2004. This report contributed to amendments to the related legislation. The report was referred by the Deputy Attorney General for review and further investigation by the RCMP.
- Our report ***Review of the Workers Compensation Board*** was released in January 2006. This report included recommendations to improve governance, human resources, and investment management practices at the Workers Compensation Board and highlighted the importance of openness and transparency in public sector entities to be open and transparent. This work contributed to the Province introducing whistleblowing legislation.
- Our report ***Review of the Unauthorized Release of the Workers Compensation Board Report*** underscores the importance the Office places on reporting the results of our work in accordance with our Act.

- Our report ***Aiyawin Corporation: The Consequences of Mismanagement in a Shared Responsibility Framework*** was released in March 2006. This report illustrated the risks to public monies that can occur when external services providers, whether they are for-profit or not-for-profit, operate in the absence of an appropriate accountability framework. This work contributed to the strengthening of the Province's administrative practices with regard to external service providers.

- Our Office issued a report on the ***Audit of the Pharmacare Program*** in April 2006. A number of recommendations were made to improve program effectiveness.

- ***A Review of School Division Financial Accounting and Reporting*** was issued in January 2006. It highlighted the difference between School Division Accounting in Manitoba and Generally Accepted Accounting Principles (GAAP) as per the Canadian Institute of Chartered Accountants (CICA).

- Our report on ***The Use of Derivative Financial Instruments in the Province of Manitoba***, issued in January 2006, provided recommendations for the Department of Finance to strengthen the Treasury function in this area.

- In November 2005, the Office issued an ***Environmental Audits*** report which contained two chapters:

  1. ***The Protection of Well Water Quality in Manitoba*** identified areas for improvement; and

  2. The ***Review of the Province of Manitoba's Management of Contaminated Sites*** addressed the issue of recording environmental liabilities in the Public Accounts.

- A report ***Infrastructure Tangible Capital Assets Audit Report*** was released in January 2006. The report reviewed the Province's capital asset accounting policy and practices.

- In our December 2005 ***Audit of the Public Accounts for the Year Ended March 31, 2005***, we included a review of the quality of performance reporting contained in the *Province of Manitoba Annual Report for the Year Ended March 31, 2005*.

- We issued ***A Quality Assurance Guide for Policy Development*** in November 2005.

- During 2005 our Office completed a follow-up on recommendations we issued in November 2001 in regards to ***A Review of the Policy Development Capacity Within Government Departments***.

- During the year, we completed and implemented a new ***Quality Assurance Manual*** to meet the new rigorous standards of quality control for firms performing assurance engagements set by the Canadian Institute of Chartered Accountants.

- We have drafted a ***Compliance with Authorities Audit Guide*** for reference by auditors in issuing opinions on an entity's compliance with the legislative authorities. During the year, we piloted the Guide with selected government entities. We will incorporate the results of the pilots, along with comments from stakeholders, in a final Compliance with Authorities Audit Guide to be applied to all government entities.

- The Office completed a follow-up of recommendations made in eleven previously issued audit reports. Overall, 81% of the 170 recommendations in those eleven reports were either fully implemented or had significant progress made toward full implementation. The results of this work are detailed in our report titled, ***Follow-up of Report Recommendations - A Review*** issued in July 2005.

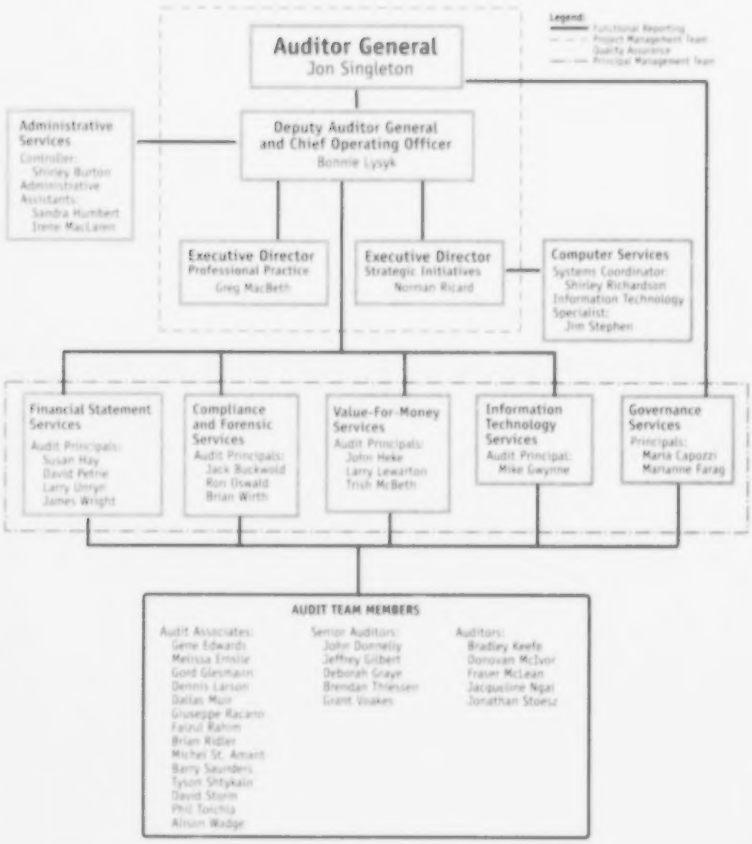
- During 2005, the Office completed a number of follow-ups of recommendations from certain previously issued reports. This work will be published in the upcoming year.

- In November 2005, the development of a Fraud and Investigative Audit Guide for reference by legislative auditors in conducting investigations was completed. During the year, all staff were provided training on this Guide. The Guide was distributed to all Canadian legislative audit offices.

- In April 2006, the Institute of Chartered Accountants of Manitoba conducted a practice inspection of our Office. The Office passed the inspection with no significant findings. The Office is operating in compliance with standards of the Canadian Institute of Chartered Accountants.

Who We Are

Organization Chart



Our Team

Left to right from Top Row: Donovan McIvor, Tyson Shtykalo, David Storm, Joe Racano, Jon Stoesz, Jim Stephen, Dennis Larson, Jeff Gilbert, Brendan Thiessen, Grant Voakes, Dallas Muir, Michel St. Amant
Third Row: Brian Ridler, Bradley Keefe, Phil Torchia, Ron Oswald, James Wright, Barry Saunders, Gord Glesmann, Alison Wadge, Larry Lewarton, Brian Wirth, Maria Capozzi
Second Row: Jacqueline Ngai, Melissa Emslie, Sandra Humbert, Fraser McLean, David Petrie, Irene MacLaren, Shirley Richardson, Larry Unryn, John Donnelly, Gene Edwards
First Row: John Heke, Debbie Graye, Shirley Burton, Trish McBeth, Greg MacBeth, Jon Singleton, Bonnie Lysyk, Norman Ricard, Mike Gwynne, Jack Buckwold, Faizul Rahim
(**Not Shown:** Marianne Farag, Susan Hay)

Legal Status

The Auditor General Act was proclaimed on May 1, 2002, replacing The Provincial Auditor's Act which was enacted in 1969.

Pursuant to The Auditor General Act, the Auditor General serves as an Officer of the Legislative Assembly. The Act gives the Auditor General the responsibility, authority, and independence to audit and publicly report on all government organizations as well as to conduct audits of recipients of public monies. By law, our reports are provided to Members of the Legislative Assembly of Manitoba.

The full Auditor General Act is reproduced in Appendix D.

Independence and Role

The Office of the Auditor General is an independent office of the Legislative Assembly. The Auditor General plays an important role on behalf of the citizens of Manitoba in the process by which the legislature holds the government of the day accountable for its actions.

In fulfilling that role, the Office has the responsibility, on behalf of the public, to bring to the attention of the legislature, and to officials of the government, anything that we consider "should be brought to the Assembly's attention".

The Auditor General Act ensures that the Auditor General is independent from elected and appointed officers including the Assembly's Committees and Boards. The Auditor General is appointed for a 10 year term.

Office policies require all employees to confirm whether they have relationships with the Government that could be perceived to affect their independence and objectivity.

Operating Principles

Independence

- We conduct our work in an objective and unbiased manner.

Balanced Perspective

- We put forth well considered and fair conclusions based on analysis of all opinions and where appropriate, reporting on strengths as well as weaknesses.

Teamwork

- We work together cooperatively and in a coordinated manner to achieve a common goal.

Accountability

- We are accountable for our individual contributions to the products and services provided by the Office.

Value-Added Work

- We provide the Legislative Assembly with value-added reports.

Professional Conduct

- We adhere to the Office values in carrying out our work.

Professional Excellence

- We maintain sound audit methodology and meet the professional standards and competency requirements of our Office.

Financial Stewardship

- We use taxpayers' money effectively and efficiently.

Finances and Resources

The Legislative Assembly Management Commission, an all-party Legislative Committee, reviews and approves our annual budget. The Office of the Auditor General's financial statements, relating to the year ending March 31, 2006, have been audited by a firm of Chartered Accountants and are presented in this report (see Financial Accountability Section).

Code of Professional Conduct

Employees of the Office of the Auditor General conduct themselves as professionals in their approach to their work and take pride in their accomplishments. We encourage a positive and professional attitude including a commitment to the Office's operating principles. As well, all employees must respect the confidentiality of information acquired in the performance of their work.

In addition, our employees belong to professional associations governed by by-laws and codes of conduct that they are required to comply with in carrying out their work in order to maintain good standing in those associations.

All employees are required to take an Oath of Allegiance and sign an Oath of Office and an annual conflict of interest declaration.Reporting Principles

Reporting Principles

We prepare our Office plans and report on operations using sound reporting principles. We based the principles on the public reporting principles developed by the CCAF-FCVI Inc. (CCAF) and set out in its publication entitled *Reporting Principles - Taking Public Performance Reporting to a New Level*. CCAF is a public-private partnership that *"is a source of support, leading edge research and capacity for members of governing bodies, executive management, auditors, and assurance providers"*.[1]

CCAF's publication is the result of a multi-year project on public performance reporting, which involved extensive research and consultation with government managers, auditors, and legislators throughout Canada. These principles are outlined below:

1. **Focus on the few critical aspects of performance**
   - focus selectively and meaningfully on a small number of things;
   - centre on core objectives and commitments.
2. **Look forward as well as back**
   - set out the goals and how activities contribute to the goals;
   - track achievements against expectations.
3. **Explain key risk considerations**
   - identify the key risks;
   - explain the influence of risk on choices and directions and relate achievements to levels of risk accepted.
4. **Explain key capacity considerations**
   - discuss capacity factors that affect the ability to meet expectations;
   - describe plans to align expectations and capacity.

5. **Explain other factors critical to performance**

- explain general factors such as changes in the economic, social or demographic environment that affect results;
- discuss specific factors such as standards of conduct, ethics, and values, or performance of other organizations that influence performance;
- describe unintended impacts of activities.

6. **Integrate financial and non-financial information**

- explain the link between activities and desired results;
- show spending on key strategies and explain how changes in spending affect results.

7. **Provide comparative information**

- provide comparative information about past performance and about the performance of similar organizations when relevant, reliable and consistent information is reasonably available.

8. **Present credible information fairly interpreted**

- present information as credible as reasonably possible;
- explain management's involvement, judgement, and basis for interpretation of performance;
- information is consistent, fair relevant, reliable, and understandable.

9. **Disclose the basis for reporting**

- explain the basis for selecting the few critical aspects of performance on which to focus;
- describe changes in the way performance is measured or presented;
- set out the basis on which those responsible for the report hold confidence in the reliability of the information being reported.

Services

The Auditor General is the auditor of the Public Accounts of the Government including the "Summary Financial Statements" and the "Special Purpose Operating Fund and Special Funds Financial Statements". The Summary Financial Statements reflect a consolidation of the Special Purpose Operating Fund and Special Funds Financial Statement with the financial statements of all organizations comprising the Government Reporting Entity as published in Volume 4 of the Public Accounts.

Under the authority of The Auditor General Act, government organizations that are subject to audit include government departments, Crown organizations, government enterprises and recipients of public monies. Pursuant to our legislated mandate, the type of audits and reviews we undertake are as follows:

Attest Audits - attesting to the adequacy, fairness and appropriateness of reports prepared by management (e.g., financial statements).

Audit of the Public Accounts - attesting to the adequacy, fairness and appropriateness of the Public Accounts and providing commentary on whether the Government is presenting fairly its overall financial situation in accordance with generally accepted accounting principles (GAAP).

Compliance with Authority Audits - assessing and commenting on the extent of compliance with government legislation, including regulations and other central government policies.

Examinations - examining financial or operational information relating to allegations of inappropriate situations or practices.

Value-for-Money Audits - assessing and commenting on the efficiency, economy and effectiveness with which government organizations use their resources to accomplish intended outcomes.

Governance Reviews - assessing and commenting on the board governance of various public sector and government funded entities.

Performance Reporting - assessing and commenting on business planning/strategic planning and performance measurement within government organizations, and the quality of accountability information submitted to the Legislative Assembly.

Special Audits - requested by the Lieutenant Governor in Council or the Minister of Finance, or by resolution of the Standing Committee on Public Accounts. The nature of this work will vary and includes the range of our audit services.

Joint Audits - conducting audits with a legislative auditor from another level of government in relation to any provincial funds that are spent under a joint initiative with another jurisdiction.

In addition to these specific services, we strive to:

- encourage discussion and debate regarding public sector management and accountability issues;
- assist the Public Accounts Committee;
- develop professionals for Public Service; and
- support, adhere and promote the accounting and assurance standards as recommended by the Canadian Institute of Chartered Accountants.

Through our work and reports we encourage public accountability and transparency. We also promote our firm belief that a special duty of care is owed to the citizens of Manitoba by those charged with managing public monies and those receiving public monies.

Clients

Our clients are the Members of the Legislative Assembly (MLAs), and through them, the citizens of Manitoba.

Those who additionally benefit from our services include Deputy Ministers, Departmental Managers, and representatives of Crown Corporations and government agencies.

Clients' Needs

Our clients expect:

- Non-partisan advice and assurance;
- Accurate and timely reporting of audit/review findings;
- Effective and broad-based communication of audit/review findings;
- Reports which provide practical and fair recommendations; and
- Audits and reviews that focus on significant public sector issues.

Key Risks

Risk Management is the process of making and carrying out decisions that will minimize the liabilities and effect of possible adverse events (risks) upon the goals and objectives of an entity.

Our Office utilizes sound risk management practices to ensure that we meet our objectives and achieve our goals. We have established control systems to reduce the likelihood that risks would adversely affect our ability to achieve our goals and objectives, while fulfilling our responsibilities under The Auditor General Act.

The following are our key risks and how we are poised to mitigate those risks:

Loss of Independence

- We consider a loss or a perceived loss of our independence to be a risk. We believe that we can address this risk by ensuring that we operate in accordance with our Act without fear of reprisal. The Act provides us with our examination parameters. As an Office we carefully guard our independence.

Loss of Credibility

- Stakeholders trust and value our assurance and advice. We are cognizant that we must gain and keep that trust and ensure that our work and our reports are valued. We strive to do this by

ensuring the quality and accuracy of our work and communications. Quality Assurance practices are established in our Office and we continue to seek ways to strengthen these practices.

Lack of Relevance of Work

- In order for our work to be beneficial to our clients, we must ensure that our reports are meaningful to them. We do this by ensuring our reports deal with topics of interest to legislators and citizens of Manitoba; are written using clear, understandable language; and provide sufficient background information to help the reader understand the significance of reported issues. As well, we maintain an awareness of the issues important to legislators and the citizens of Manitoba.

Lack of Resources and Competencies

- The quality of our assurance and advice is dependent on the knowledge, skills and ability of our employees. We offer training and professional development opportunities to ensure that they have the competencies to perform their responsibilities in an effective and efficient manner. When necessary, we supplement our in-house skills with external consultants that bring specialist knowledge required for certain assignments.

- We need the support of legislators to obtain the required resources. We annually present a financial plan to the Legislative Assembly Management Commission to request needed resources. If we do not have sufficient resources to pay for the cost of our work force, we would have to reduce the number of employees. In this event, we would be required to consider whether to advise the Legislative Assembly that we had insufficient resources to carry out our legislative mandate.

Reporting Process

To help ensure the factual accuracy of our observations and conclusions, staff from our Office maintain ongoing communication with senior management throughout an audit or review. Before beginning the work, our staff meet with them to discuss the objectives, criteria, and focus of our work in general terms. During the audit or review, our staff meet with management to review progress and ensure open lines of communication. At the conclusion of on-site work, management is briefed on the preliminary results of the work. A draft report is then prepared and discussed with them. Management provides written responses to our recommendations and these are discussed and incorporated into the final draft report.

Final reports of the Office are submitted to the Speaker for tabling with the Legislative Assembly. Each report is automatically referred to the Standing Committee on Public Accounts.

Achieving Our Vision, Mission and Legislative Mandate

This framework provides a synopsis of the link between our vision, mission, legislative mandate and our activities, and outputs, to our strategic desired outcome of improved public sector accountability, operating performance, governance and management practice.

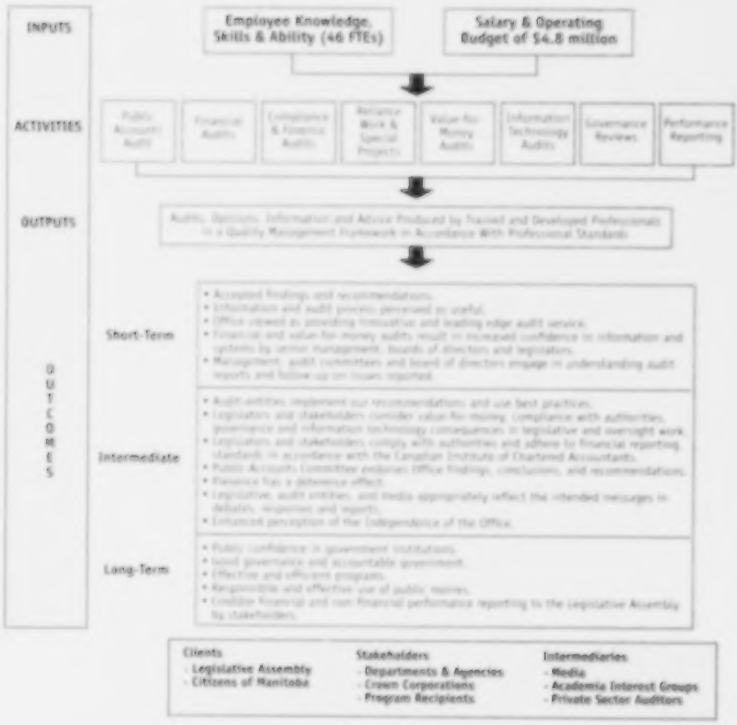
Vision

As a leader in promoting enhanced accountability of government to the citizens of Manitoba, the Office of the Auditor General will contribute to greater public trust and confidence in the institutions of government.

Mission

To contribute to effective governance by the Manitoba Legislature, we provide the Members of the Legislative Assembly with independent assurance and advice on:

- government accountability information;
- compliance with legislative authorities; and
- the operational performance of government.


INPUTS
Employee Knowledge, Skills & Ability (46 FTEs)
Salary & Operating Budget of $4.8 million
ACTIVITIES
Public Accounts Audit
Financial Audits
Compliance & Financial Audits
Reliance Work & Special Projects
Value-for-Money Audits
Information Technology Audits
Governance Reviews
Performance Reporting
OUTPUTS
Audits, Opinions, Information and Advice Produced by Trained and Developed Professionals in a Quality Management Framework in Accordance With Professional Standards
OUTCOMES
Short-Term
• Accepted findings and recommendations.
• Information and audit process perceived as useful.
• Office viewed as providing innovative and leading edge audit service.
• Financial and value for money audits result in increased confidence in information and systems by senior management, boards of directors and legislators.
• Management, audit committees and board of directors engage in understanding audit reports and follow-up on issues reported.
Intermediate
• Audit entities implement our recommendations and use best practices.
• Legislators and stakeholders consider value-for-money, compliance with authorities, governance and information technology consequences in legislative and oversight work.
• Legislators and stakeholders comply with authorities and adhere to financial reporting standards in accordance with the Canadian Institute of Chartered Accountants.
• Public Accounts Committee endorses Office findings, conclusions, and recommendations.
• Presence has a deterrence effect.
• Legislative, audit entities, and media appropriately reflect the intended messages in debates, responses and reports.
• Enhanced perception of the independence of the Office.
Long-Term
• Public confidence in government institutions.
• Good governance and accountable government.
• Effective and efficient programs.
• Responsible and effective use of public monies.
• Credible financial and non-financial performance reporting to the Legislative Assembly by stakeholders.
Clients
- Legislative Assembly
- Citizens of Manitoba
Stakeholders
- Departments & Agencies
- Crown Corporations
- Program Recipients
Intermediaries
- Media
- Academia Interest Groups
- Private Sector Auditors

Highlights of Reports

Reports Issued

May 2005 - *Examination of the Crocus Investment Fund*

Our examination was conducted over a three month period and resulted in 121 recommendations for the Crocus Investment Fund, as well as recommendations for the Deputy Attorney General, the Manitoba Securities Commission, Manitoba Industry, Economic Development and Mines, and the Province of Manitoba.

The report summarized the examination of the Fund's operations and governance in order to understand what contributed to the halt of sale and redemption of the Fund's shares on December 10, 2004 and the publicly communicated (between September 2004 and April 2005) decline in the value of the Fund's venture investment portfolio by $61.1 million or 47.8%. The report identified the following factors as having contributed to this:

- The Board of Directors lacked appropriate oversight and governance, and did not operate as effectively as was necessary given the operational and financial risks associated with the governance of a Labour-Sponsored Investment Fund (LSIF);
- Investment processes and procedures were significantly flawed;
- The carrying value of the Fund's venture investment portfolio appears to have been overstated at August 31, 2004 and that it is likely that the portfolio was overstated at earlier dates, resulting in overstated share values;
- The Fund misled investors in a significant way by failing to properly disclose and publicly communicate the reason for the receipt of $10 million in 2002 from the Fonds de Solidarite FTQ, a Quebec-based LSIF;
- By not managing, nor addressing its operating losses on a timely basis, the Fund was heading for financial difficulties and risking non-

compliance with its legislated liquidity requirements;

- There was significant abuse of the Fund's Travel and Expense Policy; and
- The Fund did not operate in compliance with respect to certain sections of The Crocus Investment Fund Act.

Those factors, along with additional observations and conclusions in the report, resulted in our concluding that the Board of Directors and Senior Officers (the former Chief Executive Officer, the former Chief Investment Officer, and the Chief Financial Officer) failed to fulfill their responsibilities to the Fund.

July 2005 - *Follow-up of Recommendations Made in Our August 2003 Report, An Examination of Le Collège de Saint-Boniface*

Follow-up work was conducted of actions taken by Le Collège de Saint-Boniface to address recommendations made in the Office's August 2003 report titled, *An Examination of Le Collège de Saint-Boniface*. There were 38 recommendations in this report. As a result of changed circumstances, we noted that one of the recommendations included in this report was no longer relevant.

We were pleased to report that significant improvements had been made, and over the last year, action has been taken to fully implement or at least begin to implement all of the recommendations. Our summary results were as follows:

Fully Implemented based on original recommendation	18
Significant Progress	6
Some Progress	13
Total Recommendations	37

July 2005 - *Follow-up of Report Recommendation - A Review*

Follow-up work was conducted to determine the status of 182 recommendations made in eleven selected audit reports that were issued between 1998 and 2002. As a result of changed circumstances, we noted that 12 of the recommendations included in these reports were no longer relevant.

The results of our review work indicated that there was significant progress by the respective organizations in implementing our recommendations. Our summary results were as follows:

Fully Implemented based on original recommendation	104
Fully Implemented with Alternative Solution	8
Significant Progress	27
Some Progress	30
No Progress	1
Total Recommendations	170

Overall, 81% of the recommendations have been fully or significantly addressed.

November 2005 - *Review of the Province of Manitoba's Management of Contaminated Sites*

This report highlights the following observations:

- The Province did not have adequate processes in place to ensure the Province's contaminated sites were identified and inventoried in a timely and complete manner;
- Conservation had not quantified the estimated costs for remediating contaminated sites;
- The Province did not have adequate processes to ensure that orphaned and abandoned fuel storage sites were identified in a timely and complete manner;
- The prioritization processes for remediation of orphaned and abandoned fuel storage sites were not adequate to ensure resources were

directed to the remediation measures that would most benefit the environment;

- The Department of Industry, Economic Development and Mines did not have a proactive process to identify, inspect and assess orphaned and abandoned mines;
- Responsibility for orphaned and abandoned fuel storage sites and mines was not clearly defined; and
- The Province was not fully positioned to quantify its environmental liabilities for disclosure in the 2005/06 Public Accounts.

November 2005 - *The Protection of Well Water Quality in Manitoba*

This audit focused on the risk management efforts of the Province regarding private water wells that supply drinking water for human consumption. Our observations highlighted three overarching themes:

- Inadequate Public Communication – Little effort was made by the Province to ensure that the public was appropriately informed that a number of provincial initiatives found occurrences of excessive levels of various contaminants in provincial groundwater, where it was occurring, and why it occurred;
- Under-developed Standards and Legislation – We noted numerous instances where better guidance was needed. Either standards were not in place, legislative provisions were lacking, or internal policies and procedures were missing. For example, water quality standards were only in draft format, well driller licensing criteria were not designed to assess the competency of well drillers, and detailed water well construction, maintenance and abandonment standards were not in place; and
- Limited Review and Monitoring Practices – We observed a number of instances where the Province failed to obtain required information or failed to review or act on available information. For example, a water test database was not in place, the well driller

licensing process was little more than a paper handling and license fee collection activity. complaints against well drillers were not formally documented or tracked, incomplete well drillers reports were accepted by the Department and a comprehensive well inspection program was not in place.

November 2005 - *A Quality Assurance Guide for Policy Development (The Guide)*

The Guide is the third in a series of reports on policy development prepared by the Office of the Auditor General. The Guide provides further opportunities for achieving excellence in policy development through the adoption of quality control steps.

December 2005 - *Audit of the Public Accounts for the year ended March 31, 2005*

This year, we reported that the Government continued to work on its commitment to adopt summary budgeting and financial statements prepared in accordance with generally accepted accounting principles for the fiscal year ended March 31, 2008. We also acknowledged the significant improvement in government communications with respect to the release of the public accounts. The Auditor General commended the Government on its continuing commitment to open and transparent financial reporting.

Furthermore, we commended Government for preparing the Summary Financial Statements in accordance with generally accepted accounting principles for senior governments (GAAP), for the first time since the Summary Financial Statements were first published in 1988. However, we also noted that because of changes to GAAP, our Auditor's Report will contain a qualification for the next two years until school divisions' financial statements are consolidated. We also noted that the Province had already undertaken significant steps to eliminate by 2007/08, the issues that will result in the upcoming qualification.

We reported that if Canadian GAAP had been used in the preparation of the Special Purpose Financial Statements for the year ending March 31, 2005, financial assets would increase by $196 million, non-financial assets would increase by $1.64 billion, liabilities would increase by $2.48 billion, net debt would increase by $2.29 billion, accumulated deficit would increase by $648 million, revenues including net income from government business enterprises would increase by $1.85 billion, and expenses would increase by $1.80 billion. As a result, this year, we again excluded the word "fairly" from the opinion paragraph in order to continue to highlight the limitations inherent in the Special Purpose Operating Fund and Special Funds Financial Statements.

In this report, we also presented two segments intended to assist readers in understanding the Summary Financial Statements: Understanding the Summary Financial Statements, and Financial Condition. A key focus of Summary Financial Statements involves the concept of net debt and the change in net debt, both in actual and relative terms (to the provincial economy). The consistency of the Province's accounting policies and the completeness of note disclosure are fundamental to understand the Summary Financial Statements. As well, the planned results (budgeted estimates of revenue and expense) are also important in assessing the Province's annual results in relation to the budget.

In our follow up review of the Province's Annual Report for the year ended March 31, 2005, we noted that there is still a need for more emphasis on the Summary Financial Statements in the discussion and analysis. There was still no discussion or analysis of risk and how the Province addressed risk. Overall, we believe that the Annual Report can be further enhanced to reflect the recommendations of PSAB's Financial Statement Discussion and Analysis and CCAF's Performance Reporting Principles.

Furthermore, in our report, we continued to reiterate, with some modifications, the following recommendations to improve the financial reporting of the Public Accounts:

- That the Government report its progress toward its commitment to implement summary budgeting by 2007/08 to the Members of the Legislative Assembly and the public on a regular basis;
- That the quarterly reports of the Province, a financial reporting tool, be prepared in accordance with GAAP as soon after the full implementation of summary budgeting in 2007/08 as practicable;
- That the Government continue with its commitment to introduce amendments to The Financial Administration Act to eliminate the requirement for separate Consolidated Fund (Operating Fund) Financial Statements; and
- That consideration be given to amending Balanced Budget Legislation to refer to the Summary Financial Statements prepared in accordance with GAAP.

We also continued to include these recommendations:

- That Internal Audit and Consulting Services revisit their role and expand their work on an annual basis to systematically, according to a documented plan, review and test SAP controls in the departments and consider providing assurance as to the effectiveness of internal controls within the provincial government; and
- That the Government address a variety of outstanding issues related to the use of SAP version 4.6B.

Other significant sections in our report included:

- An update for the 2004/05 fiscal year on the results of our work under The Auditor General Act with private sector auditors engaged to audit entities within the Government Reporting Entity (of the Public Accounts as well as a summary of the issues reported in the management letters prepared by the auditors;
- The changes to the financial reporting of RHAs and non-devolved health care facilities expected in the next fiscal year, regarding the accounting for third party debt for which the

Province is providing the funding to enable the facilities to repay the debt;

- An update on the changes to the Workers Compensation Board's financial reporting as a result of applying changes to GAAP;
- An update on the accounting for receivables owed by the Province to crown organizations for severance and vacation pay liabilities;
- An update on the development of guidelines for auditing compliance with legislative authorities to enable the provision of separate audit opinions for fiscal years ending on or after March 31, 2007 and the pilot testing thereof; and
- Our summary of future *CICA Handbook* sections both in accounting and auditing and assurance which may affect the financial reporting and the audit of the Public Accounts.

December 2005 - *A Review of School Division Financial Accounting and Reporting*

Steps are being taken by the Province to adopt GAAP for School Division public reporting by 2007/08.

School Divisions in Manitoba receive substantial monies from the Province and citizens (taxpayers, ratepayers and residents). To ensure that school divisions are held accountable for the funds they receive, citizens need to receive appropriate financial reporting and be confident that objective and recognized accounting standards are used. An understandable and accurate picture of a school division's financial position and operations enables both the Province and citizens, as well as the trustees and other stakeholders, to obtain assurance that public monies are being utilized in an appropriate and transparent manner.

School Divisions in Manitoba are currently required to follow accepted accounting principles for School Divisions which are documented in the Financial Reporting and Accounting in Manitoba Education Manual (FRAME). Conceptually, FRAME was developed based on Generally Accepted Accounting

Principles (GAAP) with a few exceptions. These few exceptions result in the financial statements of Manitoba School Divisions to not be in compliance with GAAP.

We believe that by not preparing financial statements in accordance with GAAP, citizens are not receiving the quality of financial reporting from their School Divisions to which they are entitled, and their ability to hold divisions accountable is thereby impaired.

December 2005 - *Infrastructure Tangible Capital Assets Audit*

In our report, we confirmed that Manitoba's infrastructure accounting policy is in accordance with Canadian generally accepted accounting principles for senior governments (GAAP). In addition, the key aspects of Manitoba's accounting policy and practices were consistent with the accounting policies and practices used in other provincial jurisdictions. We determined that infrastructure was recognized in the Operating Fund, in all material respects, as at April 1, 2004 and for the year ended March 31, 2005, in accordance with GAAP.

We also reported that the Government's internal controls supporting the proper accounting for infrastructure were operating effectively for the year ended March 31, 2005 except for the internal control procedures related to the recognition of when new infrastructure is put in service. We recommended that the Province amend their procedures to record new infrastructure by September 30th of each fiscal year in order to permit the Asset Management Module of SAP to properly calculate the current year's amortization expense.

December 2005 - *The Use Of Derivative Financial Instruments In The Province Of Manitoba*

This report reviewed the Province's risk management process regarding the use of derivatives. We noted that there are areas that need to be addressed to

ensure that this process is operating consistently with industry best practices with respect to management, market, legal, credit, and operational risks. We also noted that while the Treasury Division of the Department of Finance had developed a risk management policy for the use of derivatives, the Division's overall risk management policy was still under development. Similarly, we noted that what constitutes acceptable levels of risk and risk limits needed to be documented in a risk management policy statement.

In addition, we recommended that the oversight function should be expanded. There is no governance equivalent to a board of directors to establish strategic objectives and to set out a broad framework for management to work within and provide oversight. We also concluded that because the Middle Office is still under development and therefore not fully functional, the risk management process for the Treasury Division as a whole, is not fully developed.

January 2006 - *Review of the Workers Compensation Board*

In this report we reviewed the governance, human resources and investment management practices of the Workers Compensation Board. We highlighted five main messages that arose from our work:

- Public sector entities have a responsibility to be open and transparent;
- Serious concerns raised in the public sector should be fully and appropriately addressed;
- Human resource practices should include a focus on ensuring respectful workplaces in the public sector;
- Board governance requires modernization and continual renewal; and
- Private placement and real estate investing - the importance of best practices and avoiding the perception of conflict of interest.

March 2006 - *Aiyawin Corporation: The Consequences of Mismanagement in a Shared Responsibility Framework*

This report illustrated how a not-for-profit urban native housing organization, operating pursuant to agreements and sharing responsibility for its success with the Province, was placed in a precarious financial position due to the organization's mismanagement of its operations, and a lack of timely and effective administrative oversight and action by the Manitoba Housing and Renewal Corporation (MHRC).

The report identified that MHRC was not effectively monitoring the performance of Aiyawin Corporation and that the Board and management of Aiyawin Corporation, through inadequate board governance, a lack of policies and procedures, and poor management practices, allowed public monies to be used inefficiently, ineffectively, and, in certain instances, for personal benefit.

The report also included a number of recommendations for the MHRC and for Boards of Directors and Senior Management of other Urban Native Housing Organizations to review and consider with respect to their operations.

March 2006 - *Review of The Unauthorized Release of The Workers Compensation Board Report*

The Office's report on the Workers Compensation Board was released in an unauthorized manner in advance of its submission to the Speaker of the Legislative Assembly. This report underscores the importance the Office places on reporting the results of our work in accordance with our Act. As a result of this work, a referral was made to the Commercial Crime Unit of the "D" Division RCMP.

April 2006 - *Audit of the Pharmacare Program, Manitoba Health*

This audit assessed whether the Province had a cost effective program for managing the Pharmacare Program and whether it was adequately reporting program performance to the legislative assembly. The report highlights that:

- Manitoba Health should further explore all avenues available to improve the efficiency and effectiveness of the Pharmacare Program. Of note was that:
  - no analysis was performed on the actual cost savings of drugs after being added to the formulary as compared to proposed cost savings;
  - in 1994 the cap on licensing fees charged by pharmacists was lifted, such that the dispensing fees paid by the Province have since been determined by the marketplace; and
  - Manitoba Health did not promote economic prescribing practices;
- While the computerized pharmacare management system is one of the most comprehensive databases in Canada, the system had not been utilized to provide valuable information on drug costs and usage, nor to measure performance of the Pharmacare Program; and
- Manitoba Health needs to collaborate with pharmacists, prescribing physicians, national institutions and drug manufacturers in order to implement new strategies to improve the cost effective delivery of the Program.

Upcoming Reports

Audit work was conducted and reports will be issued in the upcoming year on the following topics:

- Ambulance Services
- Audit Committees in the Public Sector
- Child and Family Services Pre-Devolution
- Contaminated Land Management and Environmental Liabilities in Manitoba - Part II
- Council on Post-Secondary Education (COPSE)
- Follow-up Report on Previous Recommendations
- Highway Construction Contracting
- Home Care
- Internal Audit in the Province of Manitoba
- Municipal Assessments
- Municipal Board
- Oil and Gas Legislation
- Pharmacare - Part II
- Property Management of Government-Owned and Leased Buildings
- Provincial Management of the Environmental Livestock Program
- Provincial Monitoring of Funding Provided to the Society for Manitobans with Disabilities
- Seven Oaks School Division Land Development and A Review of the Public Schools Finance Board
- Sport Manitoba Inc.
- Sustainability of the Lake Winnipegosis Fisheries
- Wildfire Management in Manitoba
- Workplace Safety and Health

Service Group Activities

Service Group Activities

Financial Statement Audit Services

Financial Statement Services strives to provide effective, efficient, and economical attest services to our clients. These services include:

- Providing opinions on annual financial statements, special reports, and public sector compensation disclosures;
- Issuing client management letters to provide financial, internal control, compliance, or general operational recommendations;
- Conducting overview of government entities, which may also encompass file reviews of their private sector auditors. This work is necessary for our reliance on the work of the private sector firms for consolidation of their clients' financial statements into the Summary Financial Statements for the Province;
- Completing special reports on financial information, including claims; and
- Reviewing compliance with legislation to the extent required for the issuance of financial statement opinions.

Financial Statement Services conducts project audits that are selected to complement the financial expertise of employees and focus on grant accountability and financial statement issues regarding financial statements of provincially funded entities.

GOALS

Assess whether accountability information provided by the Government to the Legislative Assembly and the public is fair and reliable.

Promote adoption of Canadian Institute of Chartered Accountants (CICA) and Public Sector Accounting Board (PSAB) standards across all audit entities.

Promote improved Audit Committee practises in the public sector.

Promote public performance reporting in annual reports by the public sector.

Identify/monitor emerging issues of public sector significance.

Strengthen the role and functions of the Public Accounts Committee in relation to this office.

Our Accomplishments – 2005/06

- Provided in excess of 100 attest audit opinions, and conducted partnered audits and overviews on a timely basis. (See **Appendix A** for Financial Statement Audits Within the Government Reporting Entity Conducted by the Auditor General's Office, and **Appendix B** for Other Financial Statement audits Conducted by the Auditor General's Office.)

- Issued audit opinions on the Public Accounts of Manitoba in accordance with the statutory deadline and issued the *Audit of the Public Accounts* report to the Members of the Legislative Assembly in December 2005 with public release in January 2006.
- Participated in many Audit Committee and Board meetings of public sector entities. This involved increasing our communications to enhance their understanding of our Office, our specific audit plans, and to report on our independence.
- Responded to many requests for assistance on financial issues from government departments, crown corporations, and agencies.
- Participated in Canadian Council of Legislative Auditors (CCOLA) strategic issue information exchanges.
- Issued management letters to many of our attest audit clients, providing financial, internal control, compliance, governance, and general operational recommendations.
- Continued to work in partnership with several of the private audit firms as our agents in providing financial statement attest services.
- Continued to offer comments and provide input into audit plans, draft financial statements, and management letters of public sector entities, where we place reliance on the work of their external auditors.

PRIORITIES FOR 2006/07

Provide attest audit services for public sector entities.

Participate in the summary statement budgeting and reporting implementation team meetings.

Conduct scheduled revenue and overview audits as planned.

Provide responsive service for special request assignments.

Issue requests for proposal for selected attest audit partnering arrangements.

Compliance and Forensic Audit Services

GOAL

Assess directly, and provide advice to the Legislative Assembly on significant compliance and forensic matters in a timely, effective and economical manner.

Compliance with authority audits involve assessing and commenting on the extent of compliance with government legislation, including regulations and other central government policies.

Forensic Services involves the detailed review and assessment of financial and other information in order to determine whether inappropriate transactions or activities have taken place.

The work of Compliance and Forensic Audit Services has continued to expand since this group was

established in our Office in late 1999, a result of increasing demand for both compliance and forensic services.

Although additional resources were allocated to Compliance and Forensic Audit Services in 2002/03 from within our Office, further resources for the Office overall are needed in order to ensure issues being brought to our attention can be addressed in a timely and effective manner.

Our Accomplishments – 2005/06

- Developed a three year plan for compliance with authority audits.
- Provided reports to the legislature on the following projects:
  - Follow-up of Recommendations Made in Our August 2003 Report, An Examination of Le Collège de Saint-Boniface;
  - Investigation of the Crocus Investment Fund;
  - Review of the Workers Compensation Board;
  - Review of the Unauthorized Release of the Workers Compensation Board Report; and
  - Aiyawin Corporation: The Consequences of Mismanagement in a Shared Responsibility Framework.
- Completed fieldwork on provincial monitoring of funding provided to the Society for Manitobans with Disabilities and compliance with The Ambulance Services Act.
- Conducted fieldwork on compliance with oil and gas legislation and The Ambulance Services Act.
- Initiated fieldwork on an examination of the Seven Oaks School Division Land Development.
- Delivered a two day in-house training course on the Fraud and Misconduct Investigative Manual for Legislative Offices.
- Distributed a *Fraud and Misconduct Investigative Manual for Legislative Offices* to other Legislative Offices in Canada.
- Attended several meetings with citizens or MLAs on issues of concern, and conducted preliminary assessments.

PRIORITIES FOR 2006/07

Provide responsive service for special request assignments.

Conduct scheduled compliance audits as planned.

Increase resources for the performance of Compliance and forensic assignments.

Expanding the use of information technology in the performance of compliance and forensic assignments.

Continue utilization of TeamMate for documentation of request assessments and file work.

- Utilized TeamMate to document assessments of citizen requests.
- Successfully partnered with external experts in specialized subject areas in conducting our work.

Project Audit Services

GOAL

Assess directly and provide advice to the Legislative Assembly on Government performance in a timely, effective and economical manner.

Value-for-Money or performance auditing examines management practices, controls and reporting systems with a focus on results. In an effort to ensure that the work of Value-For-Money/Project Audit Services is viewed as value-added by the Legislative Assembly and the general public, we strive to:

- Select organizations or programs to examine which manage considerable public resources or which have a significant impact on their stakeholders and the public in general; and
- Design our audits in such a way that we focus on the key result areas of the organization or program, and further, within these key result areas, on those aspects at greatest risk of not being managed with due regard for efficiency, effectiveness and economy.

We believe that to be value-added, our services must be responsive to the concerns of members of the Legislative Assembly, as well as government organizations and program administrators. Focusing on risk and key result areas, and engaging these parties in the audit process, will help ensure our findings and recommendations contribute to improving government operations in critical areas.

In conducting our audits, we analyze the information and assess whether the results achieved indicate weaknesses in the supporting processes, systems and resource base. In examining these processes/systems we would look for:

- Inefficiencies (i.e., duplication of effort, failure to appropriately use Information Technology);
- Lack of due regard for economy;
- Whether key activities are in place and functioning as intended;

PRIORITIES FOR 2006/07

Conduct scheduled audits as planned.

Complete projects underway.

Conduct our audits within a compressed timeframe.

Continued the expanded use of TeamMate for documenting value-for-money/project audit work.

Maintain and update the Value-For-Money/Project Audit methodology on a regular basis.

Continue to annually revisit and update the audit project operations plan for potential audits to be conducted during the next two years.

- Adequacy of controls to safeguard assets from theft or misuse; and
- Adequacy of controls to ensure compliance with related Acts or regulations.

Because our work is increasingly focused on organizational performance, several factors can have an impact on what we accomplish. These factors include the extent to which:

- Clearly stated and measurable performance expectations have been established by government organizations;
- Appropriately detailed performance information has been gathered and analyzed by government organizations;
- Processes and performance have been benchmarked with comparable programs in comparable jurisdictions; and
- Access to information and client staff resources is provided in a complete, timely, and cooperative manner.

Our Accomplishments - 2005/06

- Completed fieldwork on the following audit topics:
  - Child and Family Services Pre-Devolution;
  - Workplace Safety and Health;
  - Provincial Management of the Environmental Livestock Program;
  - Highway Construction Contracting;
  - Council on Post-Secondary Education; and
  - Role of the Municipal Board.
- Conducted fieldwork on the following audit topics: Contaminated Land Management and Environmental Liabilities in Manitoba - Part II; Homecare; Municipal Assessments; Property Management of Government-Owned and Leased Buildings; Pharmacare - Part II; and Wildfire Management in Manitoba.
- Issued the follow-up work of 11 audit reports that is summarized in *Follow-up of Report Recommendations - A Review*.

- Continued to modify and refine the electronic TeamMate software template for use in project audits.
- Continued to conduct office training in the use of TeamMate software for project audits.

Governance Services

Governance Services provides assessments and advice on issues related to:

- Board governance within the public sector;
- Practices within Government reporting entities in strategic planning, performance measurement and performance reporting; and
- Managing for results.

Enhancing the effectiveness of corporate practices in these areas contributes to improved organizational effectiveness and stronger accountability processes of public sector organizations. In this way, the work of Governance Services directly supports the Office's vision of being a leader in building greater public trust and confidence in the accountability of Government to the citizens of Manitoba.

Our Accomplishments - 2005/06

- Conducted a review of the Board governance practices of the Workers Compensation Board which was published in the report entitled, *Examination of the Workers Compensation Board* (January 2006).
- Released *A Quality Assurance Guide for Policy Development* in November 2005.
- Conducted a *Study of Manitoba's Internal Audit and Consulting Services*. A summary of our observations and the recommendations will be communicated in our Audit of the Public Accounts for the year ending March 31, 2006 report to the Legislature.
- Conducted a review of the *Province of Manitoba Annual Report for the Year Ended March 31, 2005* in relation to recommended practices in performance reporting and reported the results

GOALS

Promote improved Board governance practices in the public sector.

Promote meaningful public performance reporting by the public sector.

Support the use of strategic/business planning in the public sector.

PRIORITIES FOR 2006/07

Report on our Study of Manitoba's Internal Audit and Consulting Services.

Prepare a Self-Assessment Guide to Public Sector Internal Auditing.

Undertake a project on Manitoba's wind power program.

Report on the survey of Audit Committees in Manitoba's public sector.

Audit program for reviews of Board governance finalized and shared with legislative audit community.

Act as an internal resource on governance issues as they arise in various audits/projects.

in relation to recommended practices in performance reporting and reported the results in our Public Accounts report to the Legislature in December 2005.

- Conducted a follow-up on our 2001 report entitled *A Review of Policy Development Capacity in Government Departments*.
- Completed report on Audit Committees in the Public Sector, to be included as a chapter in a future Report to the Legislature.
- Prepared the Office's comments on an exposure draft on a *Statement of Recommended Practice on Performance Reporting* issued by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.
- Completed overview of governance practices of the four Child and Family Services Authority Boards, for inclusion in an upcoming report to the Legislature.
- Prepared a draft audit program for conducting board governance reviews which will be shared with the legislative audit community for feedback.
- Hosted the annual meeting of the Governance Study Group of the Canadian Conference of Legislative Auditors in Winnipeg.
- Coordinated citizen feedback survey.
- Prepared numerous speeches on governance and public accountability for delivery by the Auditor General, as well as for delivery by the Principal, Governance Services.
- Commencing reviews of governance, in conjunction with upcoming examinations being conducted by Compliance and Forensic Audit Services.

Information Technology Audit Services

GOAL

Provide assessments and advice, regarding the management of information technology, to the Legislative Assembly.

Information Technology Audit Services conducts audits in areas including the following:

- Controls over information technology;
- The economy and efficiency with which

- The effectiveness of information technology initiatives within government.

In addition, assistance is provided to other Service Groups in the Office. This assistance consists of gathering audit evidence electronically and assessing automated controls to support audit opinions of financial and other information.

Our Accomplishments - 2005/06

- Conducted computer-based review of provincial expense transactions.
- Participated in the assessment of SAP controls for the audit of the Public Accounts.
- Assessed computer-based controls for other selected financial statement audits.
- Assisted in major compliance and forensic reviews.
- Assisted in obtaining computer-based data for various audits conducted by other Service Groups in the Office.
- Delivered a section on computer-assisted fraud detection and analysis tools as part of the Office Fraud and Misconduct Investigative Manual course presented to Office staff members.
- Developed a course on accessing general ledger accounts in SAP and presented to Office staff members.
- Assisted Office staff members in using various software products, such as word processing, spreadsheet, and SAP, as well as data extraction and analysis software.
- Participated in general meeting of the IT Committee of the Canadian Council of Legislative Auditors.
- One staff member served as President of the ISACA Winnipeg Chapter for the past two years. Over this time, among other achievements, he:
  - Oversaw a 78% growth in Chapter membership (ISACA's global growth during same period was 49%);

PRIORITIES FOR 2006/07

Complete projects underway.

Conduct information technology audits identified in Office operations plan for 2006/07.

- Effected the merger of IPAM (Information Protection Association of Manitoba) with ISACA Winnipeg Chapter;
- Worked with the CGA Association, WIA (Winnipeg Internal Auditors) and CIPS (Canadian Information Processing Society) to provide top notch reasonably priced training opportunities in Winnipeg; and
- Worked to raise the profile of the Office in the local Governance, Security and Audit Communities.

Professional Practices

Role of Quality Assurance

As a legislative audit office, we are responsible for a comprehensive, legislated audit mandate. We provide independent assurance and advice to legislators on government accountability information, compliance with legislative authorities, governance and the operational performance of government and its agencies. Having responsibility also means acting reliably and with consistency. As legislative auditors, we must exercise significant professional judgement in carrying out our work and reporting our findings and opinions. For this reason, we have in place a quality assurance system in our office. We want to ensure the quality and consistency of our judgements.

GOALS

To ensure compliance with professional standards and the internal policies established by our Office, and the achievement of overall high quality work.

To ensure that the audit methodology utilized by the Office reflects current Canadian and international standards.

Our quality assurance system is designed to provide us with reasonable assurance that:

- the Office and staff comply with professional standards, regulatory and legal requirement and internal policies; and
- the opinions and reports issued are appropriate in the circumstances.

We have completed and implemented a new Quality Assurance Manual to meet the new rigorous standards of quality control for firms performing assurance engagements set by the Canadian Institute of Chartered Accountants.

Although quality control standards have always been a component of our audit process, the new

PRIORITIES FOR 2006/07

Ensure that work continues to be executed in accordance with professional standards and the internal policies established by our Office.

Ensure that TeamMate is effectively utilized and supports the performance of effective, efficient, and economical work conducted in accordance with professional standards and the internal policies established by our Office.

Work in cooperation and collaboration with representatives from Canadian legislative offices toward the long-term objective of having consistent audit methodologies.

Implement a compliance opinion and develop an internal control opinion, and plan for an appropriate implementation for Manitoba public sector entities.

Plan for the use of TeamMate by our Agent auditors.

standards establish a framework and provide guidance on quality control policies and procedures applicable to assurance engagements for firms that perform assurance engagements- including legislative audit offices. The new standards were effective December 1, 2005.

The Executive Director, Professional Practice, is responsible for the quality assurance system. Our professional staff members are first and foremost responsible for maintaining the quality of the work in the office. The quality assurance system enhances the quality of audits and encompasses all service areas, reflecting the comprehensive mandate of our Office. The system includes:

- **Review process** – In this process, files and reports are subjected to internal reviews to ensure that the work performed complies with professional standards and office policies.
- **Report pre-issuance procedures** – These procedures help provide assurance that the planning and conduct of the audit is adequate, significant issues are handled appropriately, the project report is appropriate or the financial statements are fairly presented and the audit opinion is appropriate.
- **Report post-issuance** – All assurance engagements are subject to a review after the project report or financial statement audit opinion is released. This is a detailed review to ensure the Office's policies and procedures and professional standards are met.

External Relations

The Executive Director Professional Practice is a member of the Quality Assurance Committee of the Canadian Council of Legislative Auditors (CCOLA). CCOLA recognises the importance of having a quality assurance approach for legislative auditors and providing them with assurance that their systems to manage quality with respect to audit engagements are well designed and effective. The goal is to ensure compliance with professional standards and the internal policies established by the legislative audit office. The Committee facilitates review of legislative offices by other legislative audit offices.

Practice Inspection

The Institute of Chartered Accountants of Manitoba (ICAM) routinely conducts practice inspections of audit firms involved in the practice of public accounting as defined in the General Provisions of the ICAM By-laws. As a professional legislative audit office, we voluntarily participate in this process. The objective of an inspection is to ensure compliance with Canadian Institute of Chartered Accountants standards. ICAM conducted a practice inspection of our Office in April 2006, with no significant findings. The next practice inspection is scheduled approximately four years from this date.

Audit Methodology

We have converted our paper based audit methodology for our project audits onto the TeamMate electronic working paper software package. We had previously converted our financial statement audits onto TeamMate. Our experience with TeamMate has been very positive. TeamMate supports the performance of effective, efficient and economical work conducted in accordance with professional standards and the internal policies established by our Office.

The CICA assurance standards have been updated to harmonize Canadian standards with international auditing standards. Fundamentally, the current risk-based approach to auditing in Canada has not changed. However, there are changes related to the auditor's understanding of the entity and its internal control in order to improve the auditor's risk assessments and to better link assessed risks of material misstatement to the auditor's evidence gathering procedures. Our current audit approach is consistent with the new standards. However, we are updating our financial statement audit policies, forms and practices to be fully aligned with these new standards.

GOAL

To ensure the IT infrastructure is reliable, secure and continues to efficiently and effectively support the goals and operations of the Office with state of the art technology.

PRIORITIES FOR 2006/07

Develop new documentation and training materials in preparation for a major upgrade of TeamMate to be implemented later this year.

Continue to research and test Team Schedule and Team TEC (Time and Expense) as possible replacements for the staff scheduling and time keeping system currently in use.

Research and implement a scanning and records management solution to improve capture, storage, search and retrieval of electronic documents.

Implement and manage a network security event monitoring system.

In conjunction with Professional Practice, plan for the use of TeamMate by Agent auditors.

gathering procedures. Our current audit approach is consistent with the new standards. However, we are updating our financial statement audit policies, forms and practices to be fully aligned with these new standards.

Computer Services

Computer Services continues to:

- provide reliable, secure systems;
- provide support to our office hardware, software, intranet and network services; and
- support the other service areas in the Office with the retrieval of information from government systems, ad hoc reporting, systems development, problem resolution, and general information technology support.

Our Accomplishments - 2005/06

- Completed the roll-out of new desktop and laptop computers along with the upgrade of Microsoft Office and other standard working software. The orientation session to familiarize staff with the new equipment and software and the introduction of new security policies was a success.
- Continued the upgrade of network hardware and operating system software. Additional components were added to the central storage unit to accommodate the increase of electronic documents and the long term storage of working paper and data files.
- Implemented application performance enhancements to improve access to TeamMate

Administrative Services

Administrative Services are the support services for the Office. The staff ensures that the accounting and office administration are conducted in an efficient and effective manner. In addition, staff spends time on human resource activities, meetings and planning activities.

Our Accomplishments - 2005/06

- Coordinated the preparation of the Office budget and presentation material for the Legislative Assembly Management Commission;
- Prepared monthly financial statements and operations reports;
- Prepared the financial statements and coordinated the financial statement audit of the Office;
- Coordinated the preparation of the annual Operations Report;
- Coordinated the refitting of the Public Accounts office in the Norquay Building;
- Updated the Office Disaster Recovery/Business Continuation Plan;
- Reviewed the Office Sustainable Development Action Plan;
- Continued to update the Office Administration Manual;
- Coordinated office billing and time systems;
- Continued to expand and develop our internal design and printing capabilities;
- Coordinated external and Office-wide meetings and staff travel;
- Participated on the Sustainable Development Committee;
- Coordinated the human resource recruitment, orientation and appraisal process;
- Coordinated office access and security systems;
- Maintained office equipment, supplies and filing systems; and
- Provided day-to-day office support.

GOAL

Ensure that the accounting and office administration is conducted in an effective, efficient, and economical manner.

PRIORITIES FOR 2006/07

Develop a budget presentation for the Legislative Assembly for the 2008 budget submissions.

Coordinate the reorganization of space and filing systems in the Office.

Coordinate the retirement function of the Auditor General.

Prepare the annual financial statements for the Office.

Establish policies and procedures regarding retention and archiving of audit files.

Update the Safety and Security Plan and the Fire Plan.

Update the Disaster Recovery/Business Continuity Plan.

Update and maintain the Office Administration Manual.

Update and maintain the Employee Orientation Manual.

Update the Sustainable Development Action Plan.

Establish a long-service employee recognition program.

General Operations

Human Resources

The future for our Office is exciting, but demands that we maintain strong competencies and skill sets. The complexity of issues in the public sector is increasing, which in turn brings complexity to the issues we must address. As an Office, we need to provide continuous professional development, and to offer competitive salaries and excellent working conditions in order to attract and retain skilled and dedicated employees.

Our Office continues to receive an increasing number of requests from citizens, administration, and members of the Legislative Assembly to provide assistance in reviewing issues they are bringing to our attention. We are experiencing difficulties in reviewing and addressing these important issues on a timely basis, given our limited staffing resources. As well, with the proclamation of The Auditor General Act in May 2002, our work has expanded in relation to our financial statement involvement with private sector auditors. The staffing level in the Office has remained relatively constant over a number of years.

Monies approved for our Office by the Legislative Assembly Management Committee (LAMC) are not sufficient to enable us to maintain a staffing level equivalent to our approved complement of 53 permanent positions. During 2006/07, we once again plan to request funding from the LAMC for 53 permanent positions.

Some of our HR activities/events during the past year were as follows:

- The Project Management Team met many times throughout the year to guide the initiation and focus of audit projects.
- The Office continued with the assignment of Audit Principals to sectors as areas of responsibility for the conduct of all types of audits. This alignment is consistent with the organization of other legislative offices in Canada and should achieve benefits in ensuring that Audit Principals achieve stronger sector knowledge.

GOALS

To foster a strong team environment.

To promote the highest standard of professional capability among staff.

To increase the effectiveness of internal communication.

To be responsive to staff.

PRIORITIES FOR 2006/07

Provide diverse project work experience for auditors.

Promote multi-disciplinary audit teams.

Continue to train staff in the use of electronic working paper software.

Complete development and implementation of a core competency model.

Promote and foster open and clear internal communication.

Continue to provide training and professional development opportunities for staff.

- The audit universe and operations audit plan for 2005/06 was confirmed with audits being initiated in accordance with the plan. Employees were given the opportunity to work on a variety of audit types and subject matters that would supplement their areas of auditing expertise.
- During 2005/06, work continued on the development of a Core Competency Model to be used in the hiring and development of employees for our Office.
- A number of Audit Principal and general staff meetings were held during the year to discuss new initiatives and audit reports.
- The Office participated in the University of Manitoba recruitment initiative through the Manitoba Institute of Chartered Accountants. During 2005/06, five articling summer students worked with our Office.
- During the year, one staff member obtained his Institute of Forensic Auditing (CA•IFA) designation. As well, another employee entered the DIFA program on his way to obtaining his CA•IFA designation.
- Our office was part of a delegation to Russia to review value-for-money reports of the Russian Government Audit Group.
- Ongoing TeamMate Project Training was provided to staff.
- Refitting our Public Accounts office in the Norquay Building was completed providing staff with their own work stations.
- During the year, one employee was promoted to Audit Principal from Acting Audit Principal; one employee was promoted to the Audit Associate level; one employee left our Office for a position with the Province of Manitoba, Taxation; one employee left our Office for a position at Agricore; one former summer student commenced work as full-time articling auditor; two new employees joined our Office; one individual remains with our Office as an Audit Principal on secondment from Manitoba

Hydro; and one Acting Audit Principal retired. Two employees received 25 year service awards.

- An active social committee in the Office planned a number of events that were attended by staff members and their families.
- During the year, a *Fraud and Misconduct Investigation In A Legislative Office Environment Manual* for Legislative offices was commissioned and completed. As part of the contract, the Consultant facilitated a course for staff on Fraud and Misconduct.

PROFESSIONAL DEVELOPMENT COMMITTEE

The Office continued to provide a quality learning and development environment for all employees.

Generally accepted auditing standards require that staff conducting audits have adequate technical training and proficiency in auditing. The Canadian Institute of Chartered Accountants (CICA) general standards of quality control for firms performing assurance engagements states:

> *"The continuing competence of the firm's personnel depends to a significant extent on an appropriate level of continuing professional development so that personnel maintain their knowledge and capabilities. The firm would therefore emphasize in its policies and procedures the need for continuing training for all levels of firm personnel, and would provide the necessary training resources and assistance to enable personnel to develop and maintain the required competencies."*

The Professional Development Committee (Committee) provided training to assist staff to maintain and enhance their technical standards and proficiency in auditing. The Committee ensured that training and development opportunities were consistent with areas of strategic importance to the Office and that sufficient training was provided to meet professional educational requirements.

This year, the Committee planned and coordinated ten programs, courses, lectures and presentations. These covered a wide range of topics including Public Sector Accounting Board update, training for fraud and investigations procedures and presentation of our new Quality Assurance Manual. Staff members were also encouraged to take advantage of self-directed learning opportunities, with the Office covering a portion of the cost.

For the upcoming year, the Committee will continue with its mandate, and plans to offer a broad range of professional development opportunities. By investing in the professional knowledge of staff, the Office is helping to ensure the continuation of high quality audit services.

OTHER TRAINING AND PROFESSIONAL DEVELOPMENT OPPORTUNITIES

In addition to training provided by the Professional Development Committee, staff attended external training and development courses, seminars and conferences.

The Office is approved by the Institute of Chartered Accountants of Manitoba as a training office and supports articling students in their pursuit of the CA designation.

Based on expressed interest and approval by the Office, we support individual staff members in the pursuit of specialist audit training applicable to the legislative audit environment. These specialities include:

- Information Technologist Audit Specialist;
- Certified Fraud Examiner;
- Investigative and Forensic Accountant; and
- Certified Internal Auditor.

External Communications

The Office's communication activities are an essential contributor to the overall achievement of the Office's mission and desired outcomes. Our communication goals have two primary purposes:

- To heighten awareness of the findings and recommendations made in our audit reports, in order to improve their impact and contribution to public sector effectiveness and accountability; and
- To heighten awareness of the role, responsibilities and activities of the Office.

The Office website - **www.oag.mb.ca** - provides the public with easy access to our reports, as well as to information about our services and a link to the CCOLA website providing access to all other legislative auditors in Canada. All Reports to the Legislative Assembly and press releases are made available on our website on the day of issuance.

Over the past year, the Auditor General's Office has been invited to make numerous presentations to various audiences on a wide variety of topics including the role of legislative auditing, the provincial budget, accountability and performance reporting, fraud, Board governance and effectiveness of Audit Committees, and policy development. Some of the organizations which have invited presentations from the OAG in the past year include:

- The Manitoba Chamber of Commerce;
- The Conference Board of Canada;
- IQPC and Government IQ;
- National Conference on Crown Corporations Governance;
- The Association of Certified Forensic Investigators of Canada (ACFI) and ASIS International Canadian Prairie Chapter;
- The Manitoba Quality Network (QNET);
- The Institute of Internal Auditors;
- The Winnipeg Internal Auditors;
- The Financial Management Institute (FMI);

GOAL

To increase the effectiveness with which we communicate the nature and results of our work.

PRIORITIES FOR 2006/07

Conduct presentations to clients and stakeholders on the nature of our work and our findings and recommendations in our reports.

Continue to engage the Institute of Chartered Accountants of Manitoba and private sector auditors in discussions on accounting and reporting issues in the public sector.

- The Information Systems Audit and Control Association (ISACA);
- The Institute on Governance, and Organization and Staff Development;
- Not-for-profit organizations, such as: Mount Carmel Clinic; West End Cultural Centre; the Manitoba Association of Social Workers; and the St. Amant Conference on Creating Accountable Communities.
- The Management Internship Program and Aboriginal Management Internship Program; and
- Various class presentations at the University of Manitoba and the University of Winnipeg.

It is important that the Office of the Auditor General be open and transparent about its activities. The practice of the Auditor General with respect to the media about an examination was, and remains, as follows:

- When all appropriate parties have been notified that an examination is to take place, the Auditor General will confirm that fact if asked. This communication will include general information about the objectives of the examination;
- During an examination and when asked, the Auditor General will provide comment, when he deems it appropriate, on matters already on the public record and on the progress of the examination;
- Information that would be detrimental to the examination will not be made public; and
- The findings, conclusions and recommendations arising out of the examination will not be made public until the Members of the Legislative Assembly have been provided with the report on the examination.

The above practices balance the right of the public to know about the activities of the Office with the Office's need to conduct an effective examination. In numerous cases, members of the public have come forward with valuable information which has assisted an examination because they became aware of the examination through the media.

External Liaison

THE CANADIAN COUNCIL OF LEGISLATIVE AUDITORS (CCOLA) STUDY GROUPS

GOAL

To actively participate in CCOLA and other professional organizations to maintain and/or strengthen our Office methodologies, competencies and processes.

1. Strategic Issues Group

The Office is represented on the CCOLA Strategic Issues Study Group by the Deputy Auditor General. This is a Committee composed of deputies from each legislative audit office, including the Office of the Auditor General of Canada. Offices benefit from collectively considering proposed solutions for urgent and emerging accounting and assurance issues. The Committee addressed many issues for cross-Canada input for various legislative offices. Guidance on issues and studies is provided to other CCOLA Committees where needed.

2. Human Resource Management

The Office is represented on the CCOLA Study Group on Human Resource (HR) Management. The objectives of this study group are to:

- Provide a network to share information on HR practices and initiatives as they apply to legislative auditing;
- Promote HR best practices; and
- Conduct HR related surveys among Legislative audit offices.

In 2005/06, the Committee conducted a number of surveys and compiled comparative human resource information for referencing by Legislative audit offices.

3. Quality Assurance Committee

The Office is represented on the CCOLA Quality Assurance Committee (Committee). The objective of the Committee is to develop a common quality assurance methodology, for use by legislative audit offices, in reviewing the quality of professional work done in their offices. As well, the Quality Assurance Committee worked together to develop common quality control policies and procedures to address the new CICA quality control standards. The policies and procedures developed by the

Committee are incorporated in our new Quality Assurance Manual.

New general standards of quality control for firms performing assurance engagements were adopted by the Canadian Institute of Chartered Accountants (CICA) in August 2004. The new standards were effective December 1, 2005. A system of quality control complying with these standards had to be in place by that date for firms that perform assurance engagements. Consequently, the Committee worked together to develop common quality control policies and procedures for Legislative Audit Offices.

PRIORITY FOR 2006/07

Continue existing level of participation with external organizations.

The policies and procedures promote the use of a common framework of methods and practices among all legislative auditors to ensure adherence to the general standard for accounting firms issued by CICA. Because each legislative audit office is unique with its own legislative mandate and circumstances, policies and procedures must remain flexible and applicable by all. Accordingly, each legislative audit office adapted the Committee's policies and procedures to the local context, as long as the CICA standards continue to be adhered to.

The Committee also coordinates the reviews of legislative audit offices by other legislative audit offices using the quality assurance methodology and tools developed by the Committee. In the coming year, a representative from our Office is scheduled to review two financial statement (attest) files of the Office of the Auditor's General in Newfoundland and Labrador.

Manitoba will be chairing this Committee in the upcoming year.

4. Performance Reporting and Auditing

The Office is represented on the CCOLA Performance Reporting and Auditing Study Group, which has the following main objectives:

- To share among the legislative audit community experiences and research in the reporting and auditing of non-financial performance information both nationally and internationally;
- To advance the state of public reporting of non-financial performance information by federal/

provincial/territorial governments and their agencies; and

- To advance the practice of providing assurance on non-financial performance information.

The Study Group prepared *A Guide to CCAF Principles of Performance Reporting*. This Guide is aimed at assisting preparers of performance reports by sharing with them the characteristics which legislative auditors look for when assessing performance reports.

During the past year, the Study Group developed and conducted a survey of its members to determine project priorities that the Study Group should focus on over the next two or three years.

Manitoba will be chairing this Committee in the upcoming year.

5. Information Technology Committee

The Office is represented on the CCOLA Information Technology Committee which provides input on best practices used in the audit and support of information technology, and provides advice on IT issues, including the use and maintenance of the CCOLA Website. The Committee meets at least annually to discuss the use of information technology to improve the performance of legislative audit offices, including the methods and procedures used to audit information systems.

During 2005/06, an Office representative attended a general meeting in early Spring 2005.

6. Health Study Group

The Office is represented on the CCOLA Health Study Group. The objectives of this study group are:

- to select areas for collaborative audits to be reported by all participating jurisdictions;
- with respect to health indicator reporting, to develop and identify common verification standards across Canadian jurisdictions;
- to share best practices for health sector audits; and
- to keep abreast of developments in organizations that have an impact on health audits.

7. Governance Study Group

The Office is represented on the CCOLA Governance Study Group, that was established in September 2003, to share among the legislative audit community, research and experiences in the review and audit of public sector governance, as well as explores the development of common approaches to promoting and addressing governance issues in the public sector. Over the past year, the Study Group held a Governance Symposium in Ottawa to reflect on key governance projects of all audit offices. The Study Group also compiles governance research and governance work from all offices for reference on the CCOLA website. Manitoba currently acts as the Chair of the Study Group's activities.

OTHER CCOLA ACTIVITIES

Financial Statement Symposium and Forum

The Auditor General, Deputy Auditor General and Chief Operating Officer, Executive Director - Professional Practice, and the Audit Principal in charge of the audit of Public Accounts, along with two Public Accounts Audit Associates participated in the annual CCOLA Financial Statement Symposium and Forum. Over the years, this Symposium and Forum have continued to provide an excellent vehicle for discussing financial statement and auditing issues in the Public Sector with other legislative audit offices across Canada.

CCOLA/CCPAC Conference

On an annual basis, CCOLA hosts a Canadian Conference with the Canadian Council of Public Accounts Committees. An objective of the conference is to encourage dialogue between Legislative Auditors and elected members of Public Accounts Committees for all Canadian jurisdictions that would strengthen the functioning of Public Accounts Committees in Canada.

PARTICIPATION IN PROFESSIONAL ORGANIZATIONS

CCAF-FCVI

The Office was represented on the Task Force on public performance reporting.

Certified General Accountants Association of Manitoba

The Office is represented on a committee of the board.

Canadian Institute of Chartered Accountants

The Office was represented on the following ASB task force:

- The Generally Accepted Auditing Standards (GAAS) Hierarchy.

The Office is represented on the Assurance Standards Board (ASB).

Financial Executives Institute

The Office is represented on the Board of the Winnipeg Chapter.

Information Systems Audit and Control Association

The Office is represented on the Governance Advisory Council of ISACA.

The Office is also represented on the board of the Manitoba Chapter.

Institute of Chartered Accountants of Manitoba

The Office is represented on two committees of the Institute:

- Office Practice Assistance Committee: and
- University Recruitment Committee.

Institute of Internal Auditors (IIA)

The Office is represented on the board of Winnipeg Internal Auditors, the local Chapter of the IIA.

OTHER MEMBERSHIPS

- Associates of I.A. Asper School of Business
- Association of Certified Fraud Examiners
- Canadian Evaluation Society
- Certified Management Accountants of Manitoba
- Conference Board of Canada
- Financial Management Institute
- The Institute of Corporate Directors
- The Institute of Public Administration of Canada
- The Institute of Public Administration - Winnipeg Chapter
- Winnipeg Chamber of Commerce

Financial Accountability

FINANCIAL MANAGEMENT DISCUSSION AND ANALYSIS

The audited financial statements for the Office of the Auditor General are provided in this report on pages 69 to 77.

Estimate Process

As per Section 27(3) of *The Auditor General Act*, the Office of the Auditor General receives funding from the Legislative Assembly appropriations. Late fall each year, the Office makes a budget presentation to the Legislative Assembly Management Commission. This Commission provides the forum for the Office to request salaries funding for complement positions and operations funding.

The Office of the Auditor General maintains a bank account for operating expenses independent from the province. Advances are provided by the Province up to the amounts approved by the Legislative Assembly Management Commission.

Note 6 to the financial statements summarizes the approved funding for the past two years. In both years, the Office managed within its allocated funding and returned unexpended balances to the Consolidated Fund in accordance with Section 27(4) of *The Auditor General Act*.

Balance Sheet

The provision for employee pension benefits and employee severance benefits has increased as a result of the most recent actuarial valuation of the pension obligation and severance liability. These liabilities are matched with long-term funding commitments from the Province of Manitoba.

Year's Operations

Audit fee revenue has increased from the previous year as a result of the normal increase in fee revenue and for an additional audit completed in 2005/06.

The net funding increase from the Province of Manitoba is due to the prior year restatement of the Office's pro-rated share of the most recent actuarial valuation of unfunded pension liabilities estimated for the Civil Service Superannuation Plan.

The increase in salaries for 2005/06 reflects increases for cost of living, promotions and reclassifications offset by position vacancies for a portion of the year.

Office administration costs are higher this year as a result of an increase in transcription costs, office maintenance costs, and office supplies.

The increase in printing costs and consulting costs reflects the increase in the number of reports issued during 2005/06.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of the Office of the Auditor General for the year ended March 31, 2006 are the responsibility of management of the Office. Management has prepared the financial statements to comply with *The Auditor General Act* and with generally accepted accounting principles in Canada. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

To ensure the integrity and objectivity of the financial data, management maintains a comprehensive system of internal controls including an organizational structure that effectively segregates duties. These controls provide reasonable assurance that transactions are appropriately authorized, assets are adequately safeguarded and financial information is reliable and accurate.

The financial statements have been audited by the firm of Frostiak & Leslie, Chartered Accountants Inc. Their report to the Members of the Legislative Assembly, stating the scope of their examination and opinion on the financial statements, appears on page 68.

Jon W. Singleton, CA•CISA
Auditor General
May 18, 2006

FROSTIAK & LESLIE
Chartered Accountants Inc.
CA.COM FINANCIAL GROUP

AUDITORS' REPORT

TO THE LEGISLATIVE ASSEMBLY OF MANITOBA

We have audited the balance sheet of the Office of the Auditor General of Manitoba as at March 31, 2006 and the statements of operations and net assets available and cash flows for the year then ended. These financial statements are the responsibility of the Office of the Auditor General. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Manitoba
May 18, 2006

Frostiak + Leslie
Chartered Accountants Inc.

member www.thecpaofficialgroup.ca

FINANCIAL STATEMENTS AND NOTES

Balance Sheet as at March 31, 2006 (000s)

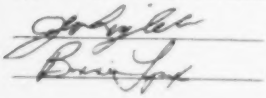
OFFICE OF THE AUDITOR GENERAL OF MANITOBA
BALANCE SHEET

As at March 31, 2006, with comparative figures for 2005 (000's)

	2006	2005 (Note 10)
ASSETS		
Current assets		
Accounts receivable	$ 17	$ 90
Short term funding commitments - Province of Manitoba	434	420
Prepaid expenses	149	200
Work-in-process - audit fees	172	159
	772	869
Long term funding commitments - Province of Manitoba (Note 3 & 7)	9,944	9,376
Capital assets (Note 4)	229	258
	$ 10,945	$ 10,503
LIABILITIES AND NET ASSETS		
Current liabilities		
Accrued liabilities	$ 33	$ 41
Accrued vacation pay	434	420
Current portion of lease obligations (Note 5)	51	51
	518	512
Provision for employee severance benefits (Note 7)	564	555
Provision for employee pension benefits (Note 7)	9,356	8,812
Capital lease obligation (Note 5)	42	93
	10,500	9,972
Net assets available	445	531
	$ 10,945	$ 10,503

See accompanying notes to financial statements.

Approved by the Office of the Auditor General of Manitoba:



Auditor General

Deputy Auditor General & Chief Operating Officer

Statement of Operations and Net Assets Available
Year Ended March 31, 2006
(000s)

OFFICE OF THE AUDITOR GENERAL OF MANITOBA
STATEMENT OF OPERATIONS AND NET ASSETS AVAILABLE

Year ended March 31, 2006, with comparative figures for 2005 (000's)

	2006	2005 (Note 10)
Revenue		
Province of Manitoba - net funding (Notes 3 & 6)	$ 5,271	$ 3,779
Audit fees	600	585
	5,871	4,364
Expenses		
Salaries	3,107	2,914
Pension and other benefits	1,265	67
Professional fees	793	630
Office administration	195	176
Office rent	165	165
Information technology	108	117
Professional development	94	92
Memberships and publications	48	49
Printing	74	40
Interest and bank charges	5	1
Travel	2	10
	5,856	4,261
Excess of revenue over expenses before undernoted	15	103
Amortization of capital assets	(101)	(103)
Excess of expenses over revenue	(86)	-
Net assets available, beginning of year	531	531
Net assets available, end of year	$ 445	$ 531

See accompanying notes to financial statements.

Statement of Cash Flows
Year Ended March 31, 2006
(000s)

OFFICE OF THE AUDITOR GENERAL OF MANITOBA
STATEMENT OF CASH FLOWS

Year ended March 31, 2006, with comparative figures for 2005 (000's)

	2006	2005 (Note 10)
Operating activities		
Excess of expenses over revenue	$ (86)	$ -
Items not involving a current outlay of cash		
Amortization	101	103
	15	103
Net change in working capital balances		
Accounts receivable	73	74
Short term funding commitment - Province of Manitoba	(14)	2
Prepaid expenses	51	(17)
Work-in-process - audit fees	(13)	15
Accrued vacation pay	14	(2)
Accrued liabilities	(8)	(68)
Long term funding commitment	(568)	(669)
Provision for employee severance	29	51
Provision for employee pension	544	609
	123	98
Investing activities		
Purchases of capital assets	(72)	(206)
Financing activities		
Acquisition of capital lease obligations	-	108
Repayments of capital lease obligation	(51)	-
Net increase in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	$ -	$ -

See accompanying notes to financial statements

OFFICE OF THE AUDITOR GENERAL OF MANITOBA
NOTES TO FINANCIAL STATEMENTS

March 31, 2006 (000's)

1. NATURE OF OPERATIONS AND ECONOMIC DEPENDENCE

The Auditor General is appointed under The Auditor General's Act (Chapter 39) as an officer of the Legislature. The Act provides for the establishment of the Office of the Auditor General of Manitoba and sets out the authority and powers of the Auditor General, identifies the audit services to be provided, and establishes reporting responsibilities.

All of the funding for the operations of the Office of the Auditor General of Manitoba is approved by the Legislative Assembly Management Commission and included in the Government's estimates as voted through the Appropriation Act by the Legislative Assembly. Accordingly, the Office is economically dependent on the Province of Manitoba.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

a) Revenue from the Province of Manitoba

Funding from the Province of Manitoba is recognized as revenue based on transactions reflected through the Consolidated Fund of the Government. Revenue includes cash payments processed against appropriations of the Legislative Assembly, cash payments for the employer's share of pension benefits paid to retirees from the Office, and the Offices' share of provisions recorded for unfunded pension benefits, accrued severance benefits and accrued vacation pay. This funding is then reduced by the amount of audit fees collected by the Office and deposited to revenue accounts of the Consolidated Fund.

b) Revenue from audit fees

Audit fee revenue is recognized on the basis of the percentage of work completed for those government entities which are charged for attest audit services and which account for their financial activities outside of the Consolidated Fund. The amount reflected as work-in-process is valued at its estimated billable amount.

c) Leases

Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks incident to ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expense as incurred.

d) Vacation Pay

The value of employee vacation entitlements earned but not taken at the year end is recorded as a liability.

e) Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses for the period reported. The more subjective of these are estimating the pension obligation and severance liability. Actual results could differ from those estimates.

f) Amortization

Capital assets are stated at cost. Capital assets are amortized using the straight line basis over the estimated useful life of the capital assets as follows:

Computer software licenses	the life of the license over 1 year
Computer hardware and software	3 years
Computer equipment under capital lease	3 years
Furniture and fixtures	10 years

3. LONG-TERM FUNDING COMMITMENTS - PROVINCE OF MANITOBA

The long-term funding commitments from the Province of Manitoba represent the pension and severance benefits earned by the employees of the Office of the Auditor General of Manitoba. The amount of this funding commitment is equal to the provisions recorded for the employees' severance and pension benefits.

This long-term funding commitment would only be collected from the Province of Manitoba in the event of a cash shortfall, which would only be likely to occur if the Office of the Auditor General of Manitoba was to cease operations.

4. CAPITAL ASSETS

	2006		2005	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer hardware and software	$ 613	$ 558	$ 631	$ 576
Computer equipment under capital lease	402	330	402	282
Furniture and fixtures	232	130	192	109
	$ 1,247	$ 1,018	$ 1,225	$ 967
Net book value		$ 229		$ 258

OFFICE OF THE AUDITOR GENERAL OF MANITOBA
NOTES TO FINANCIAL STATEMENTS

March 31, 2006 (000's)

5. CAPITAL LEASE OBLIGATIONS

	2006	2005
Capital lease - bears interest at 4.16%, with a monthly payment of principal and interest of $4.2, expiring January 1, 2008	93	144
Less: Lease interest	4	8
	89	136
Less: Current portion of principal payments	51	51
	$ 38	$ 85

Future minimum lease payments for next two years, principal and interest, are as follows:

2007	$ 51
2008	42
	$ 93

OFFICE OF THE AUDITOR GENERAL OF MANITOBA
NOTES TO FINANCIAL STATEMENTS

March 31, 2006 (000's)

6. REVENUE - PROVINCE OF MANITOBA

In accordance with Section 27(3) of The Auditor General's Act, the costs of carrying on the business of the Office of the Auditor General of Manitoba shall be paid from the Consolidated Fund of the Province of Manitoba. As a result, net funding from the Consolidated Fund which is attributable to the costs of the Office has been reflected as revenue and includes expenditure transactions processed through the Consolidated Fund on behalf of the Office, less any audit fees and other recoveries which have been deposited to the Consolidated Fund.

Net funding from the Consolidated Fund which is reflected as revenue is comprised of the following amounts:

	2006	2005
Funding from the Legislative Assembly appropriations:		
Salaries	$ 3,443	$ 3,213
Operating	1,287	1,131
	4,730	4,344
Cash payments-employer's share of employee pension benefits	331	297
Deposits of audit fees and other recoveries	(376)	(325)
Net cash from Consolidated Fund	4,685	4,316
Increase in future funding commitments:		
Employee pension benefits	544	609
Severance pay	28	51
Vacation pay	14	(2)
Revenue from the Province of Manitoba	$ 5,271	$ 4,974

Revenue from the Legislative Assembly for the operations of the Office was originally approved in the annual estimates of the Government as follows:

	2006	2005
Salaries	$ 3,908	$ 3,605
Other	973	974
Approved estimates	$ 4,881	$ 4,579
Payments processed, as above	$ 4,730	$ 4,344
Unexpended balance	$ 151	$ 235

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OFFICE OF THE AUDITOR GENERAL OF MANITOBA
NOTES TO FINANCIAL STATEMENTS

March 31, 2006 (000's)

7. PENSION OBLIGATION AND SEVERANCE LIABILITY

Pension costs

Employees of the Office of the Auditor General of Manitoba participate as members of the Civil Service Superannuation Plan, a defined benefit pension plan.

The employer's portion of the pension benefits paid to retired employees are processed through central appropriations to the Government and reflected in these financial statements as both revenue and expenditure transactions. Provision is recorded at the year end to reflect the Office's pro-rata share of the most recent actuarial valuation of unfunded pension liabilities estimated for the Civil Service Superannuation Plan. The most recent Actuarial Valuation Report available was prepared as at December 31, 2004. The next Actuarial Valuation Report will be dated December 31, 2007, but will not be released until the fall of 2008.

Severance benefits

Provision has been made for employee severance entitlements based on one week of salary for each year of service up to a maximum of fifteen weeks. In addition to this severance, employees who retire in accordance with the provisions of The Civil Service Superannuation Act will also be eligible for severance pay:

a) Employees with 20 or more years of accumulated service, an additional 2 weeks of pay;
b) Employees with 25 or more years of accumulated service, an additional 2 weeks of pay plus the amount in a) above;
c) Employees with 30 or more years of accumulated service, an additional 2 weeks of pay plus the amounts in a) and b) above;
d) Employees with 35 or more years of accumulated service, an additional 2 weeks of pay plus the amounts in a) and b) and c) above.

The provision includes accumulated benefits for all employees and includes a probability rate provided by the Province of Manitoba.

The most recent actuarial valuation of the pension obligation and severance liability of the Office of the Auditor General of Manitoba was prepared as at December 31, 2004. These reports became available during the preparation of the 2006 financial statements.

8. STATEMENT OF CASH FLOWS

Interest and bank charges included in the statement of cash flows that were paid during year are $5 (2005 - $3).

9. COMMITMENT

The Office of the Auditor General of Manitoba is committed to lease office premises at 500-330 Portage Avenue (Newport Centre) in Winnipeg, Manitoba. Minimum annual lease payments are approximately $165, plus annual adjustments for occupancy costs payable to Transportation and Government Services. The lease expires August 31, 2009.

OFFICE OF THE AUDITOR GENERAL OF MANITOBA
NOTES TO FINANCIAL STATEMENTS

March 31, 2006 (000's)

10. PRIOR PERIOD ADJUSTMENT

The prior period figures have been restated to reflect the change in estimates disclosed in the most recent actuarial report, dated December 31, 2004. This report became available during the 2006 fiscal year. As a result of these changes, the employee pension benefits provision was reduced by $1,245,490, the employee severence benefits provision was increased by $50,598, net funding from the Province of Manitoba was reduced by $1,194,892, and the pension and other benefits expense was reduced by $1,194,892. This results in a net decrease of $1,194,892 to both ending assets and liabilities, and has a net effect of NIL on the organization's net income and net assets available.

Performance Accountability

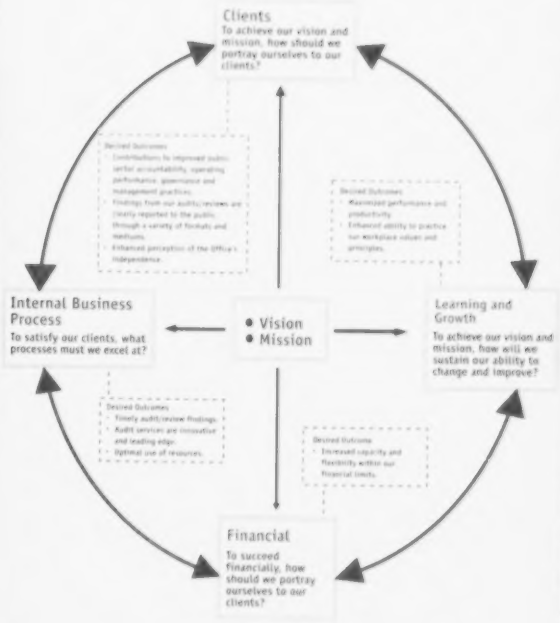
Our Strategic Planning Process

Our strategic plan is based on the Balanced Scorecard model. Through this approach, objectives, outcomes, actions and performance measures are developed that relate to four perspectives: Clients; Internal Business; Learning and Growing; and Financial.

The intent behind the model is to ensure that the strategic plan contains complementary and inter-related strategies from each perspective. Collectively, these perspectives ensure that a comprehensive and balanced approach is taken in order to realize an organization's desired outcomes. The desired outcomes developed by our Office are outlined on the following Figure.

Balanced Scorecard Model

The Balanced Scorecard Provides a Framework to Translate a Vision and Mission into Operational Terms


Clients
To achieve our vision and mission, how should we portray ourselves to our clients?
Internal Business Process
To satisfy our clients, what processes must we excel at?
• Vision
• Mission
Learning and Growth
To achieve our vision and mission, how will we sustain our ability to change and improve?
Financial
To succeed financially, how should we portray ourselves to our clients?

Our External Priorities

To achieve our desired outcomes for our clients, the focus of our work will be to support and promote within government reporting entities:

- the use of recognized accounting standards, e.g.,Generally Accepted Accounting Principles (GAAP), as enunciated by the Public Sector Accounting Board (PSAB), and the Canadian Institute of Chartered Accountants (CICA);
- effective compliance with government legislation/regulations, policies and procedures;
- the effective use of information technology;
- the effective use of strategic/business planning and performance measurement;
- effective governance practices; and
- improved assessment and reporting on program effectiveness.

Our Internal Priorities

To build on our ability to achieve our desired outcomes, internal Office operations will focus on:

- enhancing coordination between our service areas;
- developing employees as legislative auditors with expanded skill sets and the ability to perform increasingly complex audits of various types;
- strengthening teamwork capabilities; and
- improving communication and the exchange of ideas within service areas and across the organization as a whole.

Summary of Results According to 2005/06 Strategic Plan

In accordance with our 2005/06 Strategic Plan, the following provides a summary of key actions completed over the past year to meet our desired outcomes.

Perspective	*Desired Outcome*	*Actions Completed*
Client	Contributions to improved public sector accountability, operating performance, governance and management practices	• Provided over 100 attest audit services, partnership audits and overviews on a timely basis. • The following reports were issued: - Audit of the Public Accounts - Public Accounts Improvements and Recommendations - Review of the Annual Report of the Province for 2004/05 - Examination of the Crocus Investment Fund - Follow-Up of Recommendations Made in Our August 2003 Report, An Examination of Le College de Saint-Boniface - Follow-Up of Report Recommendations - A Review - Review of the Province of Manitoba's Management of Contaminated Sites - The Protection of Well Water Quality in Manitoba - A Quality Assurance Guide for Policy Development - A Review of School Division Financial Accounting and Reporting - Infrastructure Tangible Capital Assets Audit - The Use of Derivative Financial Instruments in the Province of Manitoba - Review of the Workers Compensation Board - Review of the Unauthorized Release of the Workers Compensation Board Report - Aiyawin Corporation: The Consequences of Mismanagement in a Shared Responsibility Framework - Audit of the Pharmacare Program, Manitoba Health • Fieldwork is substantially completed with reports to be issued on 19 audits. Fieldwork has commenced on 5 additional audits. • Met with MLAs and citizens on a variety of specific issues of concern. • Provided input to the CICA on public sector accounting and auditing issues. • Provided information to Treasury Board, the Minister of Finance and the Department of Finance on present and future accounting issues. • Attended Department of Finance and Treasury Board meetings regarding provincial transition to Summary Budgeting and Reporting in Manitoba.
	Findings from our audits/reviews are clearly reported to the public through a variety of formats/mediums	• Press releases were issued for reports. • Reports and press releases were made available on the Office website at the time of their public release. • Auditor General made numerous presentations to a variety of audiences.
	Enhanced perception of the independence of the Office	• Met with a number of Board and Audit Committees. • Continued discussions for strengthening the role and function of the Public Accounts Committee of the Legislature.

Summary of Results According to 2005/06 Strategic Plan (cont'd.)

Perspective	*Desired Outcome*	*Actions Completed*
Internal Business	Innovative and leading edge audit services	• Held meetings with private sector auditors, public sector internal auditors, and public sector Chief Financial Officers.
		• Participated on the Office Practice Assistance Committee of the Institute of Chartered Accountants of Manitoba.
		• Participated on a Summary Budgeting and Reporting Implementation Team with Treasury Board and Department of Finance personnel.
		• Continued involvement of employees with CCOLA and external professional associations.
		• Supported expanded membership and involvement in professional associations.
		• Completed three agency agreements for attest audits.
		• Conducted audit planning and result presentations to a variety of boards and finance/audit committees.
		• Selected audit projects focused on improved financial reporting within the public sector.
		• Distributed a "Fraud and Misconduct Investigative Manual for Legislative Offices" to other Legislative Offices in Canada.
		• Piloted a compliance opinion in the public sector.
	Optimal use of resources	• Monitored employee utilization and audit costs, as well as other performance data.
		• Participated in the University of Manitoba recruitment initiative through the Institute of Chartered Accountants.
		• Contracted with subject matter experts to assist in the conduct of audits/investigations.
		• Partnered with private sector accounting firms for resource secondments.
		• Continued to upgrade hardware and software resources in the Office.
		• Implemented TeamMate software in order to conduct project audits using an electronic medium.
		• Increased content of the Office Intranet.
Learning and Growth	Maximize performance and productivity and encourage a positive and professional work environment	• Developed a Sustainable Development Policy and completed planned actions for 2005/06.
		• The Professional Development Committee planned and coordinated programs, courses and lectures. This was supplemented with computer training and personal training and development options selected by individual employees.
		• Conducted several employee meetings and office report briefings.
		• Promoted open and transparent communication on issues being addressed by the Office.

Summary of Results According to 2005/06 Strategic Plan (cont'd.)

Perspective	Desired Outcome	Actions Completed
Learning and Growth (cont'd.)	Maximize performance and productivity and encourage a positive and professional work environment (cont'd.)	• Encouraged diversity of work opportunities and challenges for employees. • The Office Social Club organized a number of specific social functions for employees throughout the year. • Office members participated in external professional and volunteer organizations. • Office members participated on CCOLA Committees.
Financial	Increased capacity and flexibility within our financial limits	• Monthly financial and quarterly operations reports prepared. • Coordinated Office billing and time systems and produced required information. • Managed staffing levels in accordance with the approved budget and market availability of employees with the competencies required, in order to fill vacancies arising during the year. • Maximized the use of training dollars through attendance at local training courses.

Summary of 2007/09 Strategic Plan

The following strategies were developed as part of our three year strategic plan to help us achieve our desired outcomes. Specific action plans are developed for each strategy on an annual basis.

Perspective	Desired Outcome	Strategies
Client	Contributions to improved public sector accountability, operating performance, governance and management practices	• To conduct assurance services. • To conduct compliance and forensic investigations. • To conduct results-oriented VFM audits and audit projects. • To conduct information technology audits. • To conduct governance reviews and studies. • To conduct business planning and performance measurement reviews and studies. • To respond to external requests/special audits. • To continue partnering with private sector accounting firms. • To follow-up on the status of recommendations made in past reports.
	Findings from our audits/reviews are clearly reported to the public through a variety of formats/ mediums	• To update the external communication strategy as needed.
	Enhanced perception of the independence of the Office of the Auditor General	• To continue to operate in accordance with The Auditor General Act. • To actively increase our efforts to strengthen the role and function of the Public Accounts Committee of the Legislature.

Summary of 2007/09 Strategic Plan (cont'd.)

Perspective	*Desired Outcome*	*Strategies*
Internal Business	Innovative and leading edge audit services	• To promote the basic principles for Legislative auditors. • To explain/communicate our independence to clients, stakeholders and intermediaries. • To identify opportunities for our work in areas of emerging public sector issues. • To participate on the Summary Budgeting and Reporting Implementation Team • To encourage ongoing enhancement of skills in results-based auditing. • To continuously incorporate current thinking on control and risk management into our audit processes. • To promote adoption of CICA/PSAB standards across all audit entities. • To develop an internal control opinion for use in the Manitoba public sector. • To engage entities in a discussion of compliance and internal control opinions in the public sector. • To maintain and encourage external networking and membership in professional associations. • To increase our communication with Internal Audit. • To keep informed of practices in other Legislative offices.
	Optimal use of resources	• To maintain an audit universe for the selection and coordination of audits that offer the greatest potential for us to contribute to improved performance and accountability in the public sector. • To ensure that the Public Accounts audit is planned and conducted to ensure the optimal use of resources. • To ensure auditing standards for all services are current and to continue to enhance the Office's quality assurance process. • To ensure compliance with CICA Quality Assurance Standards. • To use multi-disciplinary audit teams where appropriate. • To ensure the Office's information technology structure effectively supports the operation of the Office. • To monitor and report on our operations. • To monitor and ensure client satisfaction with our services.
Learning and Growing	Maximize performance and productivity and encourage a positive and professional work environment	• To action our long-term human resource strategy. • To action our professional development strategy. • To supplement our knowledge base with external experts as needed. • To conduct an employee opinion survey.
Financial	Increased capacity and flexibility within our financial limits	• To maintain an optimum level of resources among service groups.

Best Practices - Critical Success Factors

This is a list of critical factors or practices that we consider to be essential ingredients of a quality legislative office. Essentially the critical factors represent qualitative performance indicators against which we benchmark our performance.

Critical Success Factors

Practices and Activities	Our Performance
Strategic Planning	• Three year Business Plan in place that is updated annually with a major review every three years.
Performance Measurement	• Measures developed and evolving. • Referencing CCOLA measures as developed.
Audit Procedure Manuals	• Methodology exists for Financial Statement Services and Value-For-Money Services; both are reviewed annually to ensure they are current. • A Manual is in place for Compliance and Forensic Services.
Quality Control Review	• Pre-issuance review on draft financial statements. Pre-issuance review on draft reports. Post-issuance file reviews.
Quality Assurance	• Review completed by the Office of the Auditor General of Canada (financial statements in 2002). • Practice inspection completed by the Manitoba Institute of Chartered Accountants in 2006. • Dedicated Professional Practice position established in the Office in 2003. • Review completed by the Ontario Provincial Audit Office in 2003 (VFM file). • Representative of Manitoba completed two financial statement file reviews for the Saskatchewan Provincial Audit Office.
Audit Selection Process	• Risk assessment process utilized in audit selection. Process to be subject to continuous improvement.
Percentage of Staff with a Professional Accounting Designation and/or an Advanced Degree (e.g., Masters)	• Staff with an Accounting Designation/Audit Certification — Number: 32 — %: 71 • Staff with an Advanced Degree — Number: 4 — %: 9 • CA Students — Number: 5 — %: 10 • Non-designated Staff — Number: 5 — %: 10 Total Staff — Number: 46 — %: 100
Opportunities for Professional Development	• Financial support to CA students and to employees for audit courses completed and passed. • Budget for staff to take various types of internal and external training. • Presentations organized on relevant topics.
External Memberships	• Canadian Council of Legislative Auditors (CCOLA) • CCAF-FCVI • Canada Evaluation Society • Financial Executive Institute • Certified General Accountants Association of Manitoba • IT Governance Institute • Canadian Institute of Chartered Accountants (CICA) • Public Sector Accounting Board (PSAB) • Institute of Internal Auditors (IIA) • Institute of Chartered Accountants of Manitoba (ICAM) • Chamber of Commerce • Human Resources Management Association of Manitoba (HRMAM) • Conference Board of Canada • Information Systems Audit and Control Association (ISACA) • Institute of Public Administration of Canada (IPAC) • Financial Management Institute (FMI)

Critical Success Factors

Practices and Activities	Our Performance
External Memberships (cont'd.)	• Associates of the University of Manitoba, I.H. Asper School of Business • The Institute of Corporate Directors • Association of Certified Fraud Examiners • Certified Management Accountants of Manitoba
Use of IT Tools in Office Operations and Audit/Review Projects	• TeamMate as an electronic working paper software for Financial Statement Services implemented • TeamMate for other Service Groups to be in place and utilized • Audit software (IDEA/CASEWARE, Microsoft Office products) • Time tracking on projects is automated • Attendance records automated • E-Mail • Internet Access • MS Project Planner Software

Performance Measurement

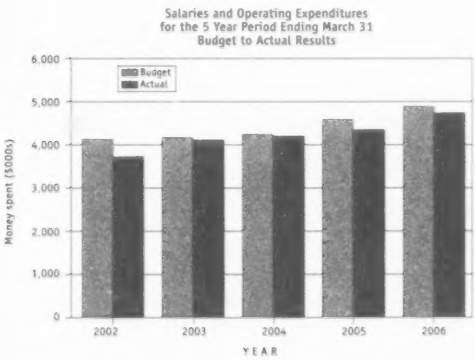
Overview

As a key component of our strategic plan, the Office is committed to performance reporting. The following information provides a synopsis of our results in key performance areas.

As the work in the Office continues to evolve, we will be reviewing and assessing future additional or varied performance measures.

Salaries and Operating Expenditures

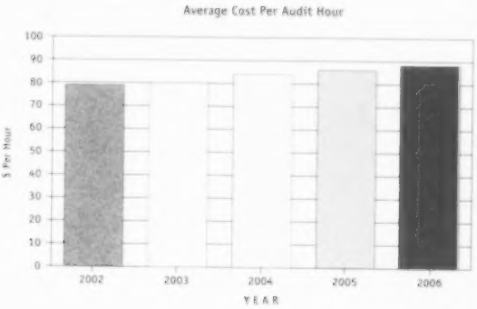
The following chart reflects the budget to actual expenditures of the Office over the past five years. The slight increase in expenditures mainly reflects inflation and contractual salary adjustments. The level of staff in the Office has remained relatively constant over the same period.



Over the past five years, the Office has never exceeded its overall funding as authorized by the Legislative Assembly Management Commission. We have managed our finances prudently and have returned unexpended amounts to the Consolidated Fund.

Audit Costs

The average cost per audit hour is based on the actual salary cost and benefits plus operating costs. The audit hours are the total number of actual audit hours for the year.



The average cost per audit hour for 2006 increased slightly from the prior year. This increase was due in part because of the contractual increase in salaries paid, promotions, increments, and also an increase in operating costs.

The Office is a training office for people to become Chartered Accountants, Certified General Accountants, and Certified Management Accountants, and the last few years have seen an increase in the number of student auditors. In 2005/06 we had five student auditors.

Employee Time

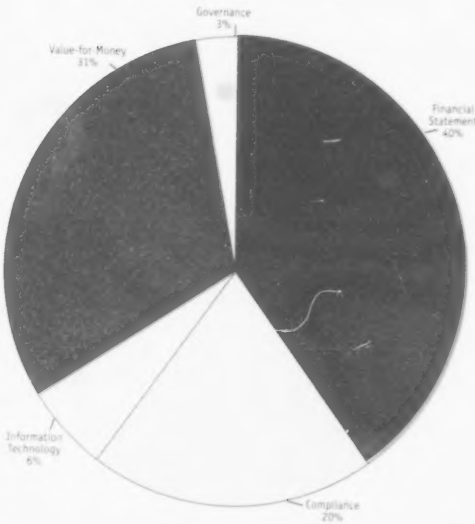
	Actual				Target
	2003	2004	2005	2006	2006
Employee Time					
Working hours	86%	85%	86%	84%	84%
Vacation and statutory holidays	11%	11%	12%	12%	12%
Sick leave	3%	2%	2%	3%	3%
Other leaves	-	2%	-	1%	1%
	100%	100%	100%	100%	100%
Working Hour Tasks					
Audits	76%	75%	75%	78%	75%
Executive and Support Services	18%	18%	18%	17%	18%
Professional Development	5%	6%	6%	4%	6%
CA Student Training	1%	1%	1%	1%	1%
	100%	100%	100%	100%	100%
Number of full-time positions	42	45	46	46	46

Every employee is required to complete bi-weekly timesheets for each task done during the work day. Internally, time is posted to audits, projects or administration which includes support services, executive management, general office administration, professional development, etc. The Office uses the information to monitor performance and to determine the actual cost of audits or projects.

Our goal was that 75% of staff time be charged to audits. We achieved this goal for the past four years.

In terms of our audit work, the following pie chart provides a schematic of the percentage of time spent on our different types of services.

Allocation of Audit Time

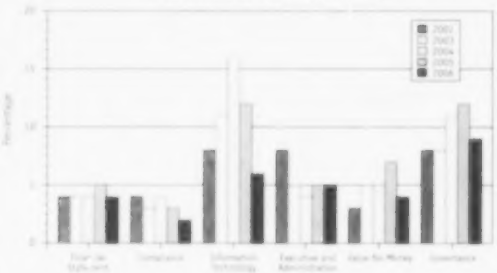


Professional Development and Training

On average the Office target is that 7% of employees' time be allocated to professional development and training. On an overall basis 5% was achieved. The training for 2005/06 was determined from the training and development needs of Services' employees.

In addition to the professional development and training employees receive during working hours, some employees also spend additional hours taking courses and enhancing their professional skills. These hours are not reflected in the 5% of employee time.

Percentage of Hours for Professional Development and Training



Website Usage

The Office website (www.oag.mb.ca) provides the public with easy access to our reports, as well as to information about our services. It is also a link to the CCOLA website providing access to all other legislative auditors in Canada. All reports to the Legislative Assembly and press releases are made available on our website on the day a report is tabled.

In the past year, our website has been visited by 45,550 unique visitors who accessed our web pages a total of 122,733 times.

During the first two day period after the release of the Examination of the Crocus Investment Fund report our website went down due to the huge number of visitors attempting to download the report. Approximately 6% of the total hits for the

year. The problem was rectified by increasing the website bandwidth to accommodate the extra visitors.

Top Five Reports of Interest for the Past Year	% Of All Reports Accessed
Examination of the Crocus Investment Fund	15.5%
Operations of the Office, March 31, 2004	7.1%
Environmental Audits	6.3%
Operations of the Office, March 31, 2005	4.5%
Review of the Workers Compensation Board	4.0%

Client Satisfaction - MLA Survey

Our Office defines its primary clients as the citizens of Manitoba, and their representatives, the Members of the Legislative Assembly (MLAs). The government departments and organizations we audit are the beneficiaries of our services.

To ensure that our services meet the needs and expectations of our clients, the Office conducted a survey of MLAs in 2002. We sought information on the extent to which MLAs have read our reports, their assessment and overall satisfaction of our reports and their assessment of the extent to which we achieve our desired outcomes.

The MLA survey was administered in May 2002 by an independent research firm to ensure respondent confidentiality. Our 2002 results indicated the following:

- 92% indicated that our Reports to the Legislative Assembly (RTLs) are an important service, and believed that our RTLs deal with matters of significance for the Legislative Assembly;
- 86% of MLAs agreed that the work of our Office contributes to improved public sector accountability in Manitoba;
- 84% indicated that the RTLs deal with issues in an unbiased and objective manner, and that the recommendations made were fair and practical; and
- 84% indicated they are satisfied with the overall quality of our RTLs.

Client Satisfaction - Citizen Survey

As a further component of our performance measurement strategy, the Office conducts a survey of Manitoba citizens every three years in order to: assess public awareness of the work of our Office; measure the accomplishment of our desired outcomes; and track changes in public perception of the Office over time. Previous surveys were conducted in 2003 and 1999. In 2006, the survey was administered province-wide by an independent research firm, and found that:

- 44% of Manitobans were somewhat or very familiar with the work of the OAG. (This is a significant increase from 28% in 2003.)
- 50% of Manitobans agreed that the OAG helps to build greater public trust, confidence and accountability of government to the citizens of Manitoba. (This is a significant increase from 39% in 2003, and 38% in previous surveys.)
- 51% of Manitobans feel that the work of the OAG helps ensure the responsible and effective use of public monies. (This is a significant increase from 38% in 2003.)
- 45% of Manitobans feel that the work of the OAG has a positive impact on government programs and operations. (This is a slight increase from 40% in 2003.)
- 42% of Manitobans feel that the OAG is doing a good job in holding the provincial government accountable to the citizens. (This is a significant increase from 28% in 2003.)
- 39% of Manitobans believe that the OAG is truly independent of government and provides an objective opinion. (This is a slight increase from 31% in 2003.)
- Overall, 43% of Manitobans believe that the work of the OAG contributes to greater public trust in government institutions. (This is a significant increase from 31% in 2003.)

It is interesting to note that those who reported being most familiar with the work performed by the OAG, also expressed much stronger levels of agreement than did the public as a whole with the statements directly addressing the OAG's work.

- 63% of this subgroup believe our work helps build greater public trust, confidence and accountability of government to the citizens of Manitoba;
- 62% believe that the OAG is doing a good job in holding the provincial government accountable to citizens;
- 60% perceive the OAG as truly independent of government, providing an objective opinion; and
- 58% believe our work contributes to greater public trust in government institutions.

The survey also asked questions related to the work of Manitoba's Public Accounts Committe (PAC).

- Very few Manitobans (4%) indicated that they were familiar with the work of Manitoba's Public Accounts Committe.

Client Satisfaction – Audit Engagement Surveys

In 2006, the Office developed a performance feedback questionnaire that will now be provided to all clients after an attest or project audit is completed. This allows our clients to assess our performance and provide us with suggestions to better serve their needs.

The results of these surveys are shared with the Audit Teams conducting the audit in order to continually improve our performance and enhance our services. Aggregated results will be provided in next year's report on the *Operations of the Office*.

Employee Satisfaction

Our Office believes that a cooperative, energetic, team environment that values and respects the individual and promotes continuous learning and growth is essential in order for us to achieve our Mission and Vision.

Respect, honesty, integrity and openness form our fundamental values. A 2004 staff survey (91% participation rate) indicated that 76% of

respondents were satisfied to be working in our Office. The next survey will be conducted during 2006. Between now and then we will be striving to further improve this measure through various human resource and communication initiatives.

Follow-up of Recommendations Accepted by Administration and the Government

Overall, the majority of our recommendations are accepted by the entities we audit, and by the Ministers. The Government is receptive to implementing these recommendations. Our MLA survey of 2002 indicated that 83% feel that our recommendations will improve the operations of government, once implemented.

In 2004, we initiated a follow-up process for 11 performance and compliance audits. These audits included 182 recommendations from 11 reports issued between fiscal 1998 and 2002. After adjusting for 12 recommendations that were no longer relevant, ***81% of the recommendations were either fully implemented or had significant progress made toward full implementation***. We conducted review procedures on the progress reports prepared by management on the status of those recommendations. Our findings of progress as at March 31, 2004 are contained in our report titled, *Follow-Up of Recommendations - A Review*.

Since September 1997, we have reported on 58 audits, reviews or studies (VFM, Compliance and Forensic, Governance, IT). Our recommendations relating to the Province's Public Accounts are tracked separately and followed-up annually. The status of our Public Accounts recommendations is discussed in our annual report to the Legislature on the Public Accounts.

During 2005, we initiated initial follow-up reviews on approximately 170 recommendations and repeat follow-up reviews for approximately 80 recommendations that were previously followed-up but reported as not yet fully implemented.

The following chart reflects a summary of recommendations issued by the Office since fiscal

1998 and the status of a portion of those recommendations based on follow-up work completed to date. This chart ***highlights that the majority of recommendations are being accepted for implementation or alternative solutions by administrators and the government*** as follows:

- Accepted for implementation or alternative solution by administrators and the government on 153 recommendations (61%);
- Significant progress has been made on 37 recommendations (15%);
- Some progress is being made on 58 recommendations (23%); and
- No progress has been made on 4 recommendations (1%).

Summary of Implementation Status of Recommendations as at the Most Recent Follow-up Date

Fiscal Year the Recommendations Were Issued	Number of Recommendations			Status as at Most Recent Follow-up Date					
	Issued	Not Yet Followed-up	Followed-up	Implemented	Alternative Solution Implemented	Significant Progress	Some Progress	No Progress	No Longer Relevant
1998	27		27	21	0	2	4	0	0
1999	21		21	12	2	2	4		1
2000	8		8	4	1	1	2		
2001	97	12	85	57	3	8	15	1	1
2002	84	9	75	46	3	9	11		6
2003	175	163	12	2		1	4	2	
2004	134	119	15	10		3	1		1
2005	98	98							
2006	282	282							
Total	927	683	265	153	9	26	41	3	9

Requests for Special Audits/ Consultations

Requests for Special Audits, examinations and consultations continue to increase. The Office reviewed the impact of requests on its audit and resource planning and staffing processes and decisions, and will continue to request funding to cover the approved complement staffing level.

Speaking Engagements

Over the past year, the OAG has given 25 presentations to a wide variety of external organizations, including various national conferences held in Ottawa and Calgary.

Diverse topics include the role of legislative auditing, the provincial budget, accountability and performance reporting, quality assurance for policy

development, Board governance and effectiveness, role of Audit Committees, and fraud in the public sector.

Sustainable Development

In the spring of 2000, the Government of Manitoba committed to implementing sustainable development guidelines for operations of all departments, entities and related corporations. Our Office established a Sustainable Development Committee to review the guidelines and prepare an action plan. We submitted the action plan to Government Services in September 2002 and effective April 1, 2003 our Office began working toward the achievement of the action plan.

SUSTAINABLE DEVELOPMENT POLICY:

The Office of the Auditor General will apply the principles of sustainable development in all aspects of its operations to achieve environmentally sound and sustainable economic development. Through its decisions to provide information and services to the Legislative Assembly and the people of the Province of Manitoba, the Office of the Auditor General will endeavour to meet the needs of the present without compromising the ability of future generations to meet their needs.

The Office of the Auditor General recognizes that our day to day activities, operations and other policy responses impact on society and the environment in a number of ways. As such, the Office of the Auditor General is committed to an integrated planning approach that includes evaluating the impact of our activities on the environment, natural resources, and ecology of Manitoba.

In order to reduce the impact of our Office on the environment, we are committed to achieving continuous improvement of our performance through the development and implementation of an environmental management policy and raising awareness of sustainable development within our Office and those with whom we interact.

We intend to reduce our main environmental impacts through improvements in:

- recycling initiatives;
- purchasing and contract management (including paper);
- business and commuter travel;
- waste reduction; and
- continued engagement with other departments and agencies to better understand and manage social, environmental and ethical impacts of our policies.

In addition to incorporating the principles of sustainable development into our own systems and processes, we will endeavour to include audits and reviews of sustainable development activities undertaken by Departments, Crown Corporations and Agencies in our audit plans whenever practical.

ACHIEVEMENTS IN 2005/06

- Reviewed the OAG Sustainable Development Policy.
- Increased shredding and recycling of paper products.
- Increased recycling of all other products.
- Continued the use of recycled paper.
- Continued the use of environmentally friendly products.
- Included environmentally friendly technology criteria in the Request for Proposal for the lease of all new office machines.
- Expanded the use of TeamMate, an electronic auditing software program to increase efficiency, and reduce paper and printer usage.
- Included sustainable development guidelines, policies and procedures in Office operating manuals.

PRIORITIES FOR 2006/07

- Integrate the OAG sustainable development action plan into the OAG's business planning process.
- Review the guidelines, policies and procedures in the Office operating manuals.
- Explore the use of "green" hotels and facilities where practical.

- Explore the implementation of an electronic filing and management system to reduce the use of paper.
- Promote the acceptance of sustainable development principles in government departments and agencies through the performance of compliance and environmental audits.
- Continue to promote ongoing sustainable development initiatives within the Office by:
  - offering staff workshops or information sessions;
  - finding more "green" alternatives to environmentally unfriendly products;
  - further reducing waste and increasing recycling; and
  - exploring ways of reducing total annual consumption of utilities and other energy resources.

Appendices

Appendix A

Financial Statement Audits Within the Government Reporting Entity Conducted by the Auditor General's Office

Summary Financial Statements
Consolidated Fund (Operating Fund and other Special Funds)
Fiscal Stabilization Fund
Debt Retirement Fund
Northern Affairs Fund
Amounts Paid to MLAs

CROWN ORGANIZATIONS

Board of Administration under The Embalmers and Funeral Directors Act
Brandon University (and subsidiaries)*
Centre Culturel Franco-Manitobain*
Cooperative Loans and Loans Guarantee Board
Cooperative Promotion Board
Council on Post-Secondary Education
Economic Innovation and Technology Council*
Helen Betty Osborne Foundation
Horse Racing Commission*
Legal Aid Services Society of Manitoba
Manitoba Agricultural Credit Corporation*
Manitoba Centennial Centre Corporation*
Manitoba Crop Insurance Corporation
Manitoba Gaming Control Commission
Manitoba Habitat Heritage Corporation*
Manitoba Health Services Insurance Plan
Manitoba Hospital Capital Financing Authority
Manitoba Housing and Renewal Corporation*
Manitoba Trade and Investment Corporation
Manitoba Water Services Board*
Public Schools Finance Board
Special Operating Agencies Financing Authority
University College of the North
University of Manitoba (and subsidiaries)

GOVERNMENT ENTERPRISES

Leaf Rapids Town Properties Ltd.*

SPECIAL OPERATING AGENCIES

Manitoba Text Book Bureau*
Organization and Staff Development*
Public Trustee

* Audit conducted under an agency agreement with a private sector accounting firm.

Appendix B

Other Financial Statement Audits Conducted by the Auditor General's Office

All Charities Campaign
Brandon University Retirement Plan*
Civil Service Superannuation Fund
Elections Manitoba Returning Offices - 37th General Election
Estates and Trusts under Administration
by the Public Trustee
Labour Market Development Agreement
Manitoba Home Care Employees' Benefits Trust Fund
Public Service Group Insurance Fund
Teachers' Retirement Allowances Fund
University of Manitoba Pension Plans
University of Winnipeg (and subsidiaries)*
University of Winnipeg Pension Plan*

* Audit conducted under an agency agreement with a private sector accounting firm.

Appendix C

Financial Statement Audits Within the Government Reporting Entity Conducted by Private Sector Accounting Firms With Overviews Performed by the Office of the Auditor General

CROWN ORGANIZATIONS

Addictions Foundation of Manitoba
Assiniboine Community College
Cancer Care Manitoba
Child and Family Services of Central Manitoba
Child and Family Services of Western Manitoba
Communities Economic Development Fund
Crown Corporations Council
General Child and Family Services Authority
Insurance Council of Manitoba
Manitoba Adolescent Treatment Centre Inc.
Manitoba Arts Council
Manitoba Boxing Commission
Manitoba Community Services Council Inc.
Manitoba Development Corporation
Manitoba Film and Sound Recording Development Corporation
Manitoba Floodway Authority
Manitoba Health Research Council
Manitoba Opportunities Fund Ltd.
Red River College
Regional Health Authorities:
- Assiniboine Regional Health Authority Inc.
- Brandon Regional Health Authority Inc.
- Burntwood Regional Health Authority Inc.
- Churchill Regional Health Authority Inc.
- Interlake Regional Health Authority Inc.
- Nor-Man Regional Health Authority Inc.
- North Eastman Health Association Inc.
- Parkland Regional Health Authority Inc.
- Regional Health Authority - Central Manitoba Inc.
- South Eastman Health/Sante Sud-Est Inc.
- Winnipeg Regional Health Authority Inc.

Rehabilitation Centre for Children Inc.
Venture Manitoba Tours Ltd.

GOVERNMENT ENTERPRISES

Manitoba Hazardous Waste Management Corporation
Manitoba Hydro-Electric Board
Manitoba Liquor Control Commission
Manitoba Lotteries Corporation
Manitoba Product Stewardship Corporation
Manitoba Public Insurance Corporation
Workers Compensation Board of Manitoba

Appendix C (cont'd.)

SPECIAL OPERATING AGENCIES

Civil Legal Services Agency
Companies Office
Fleet Vehicles Agency
Food Development Centre
Industrial Technology Centre
Land Management Services
Mail Management Agency
Manitoba Education Research and Learning Information Networks (MERLIN)
Manitoba Securities Commission
Materials Distribution Agency
Office of the Fire Commissioner
Pineland Forest Nursery
Property Registry
Vital Statistics Agency

Queen's Printer – This is not an official version.
For the official version, please contact Statutory Publications.

C.C.S.M. c. A180

The Auditor General Act

Table of Contents

(Assented to July 6, 2001)

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Manitoba, enacts as follows:

PART 1

DEFINITIONS

Definitions

1 In this Act,

"**department**" means a department or branch of the government. (« ministère »)

"**external auditor**" means a professional auditor or firm of professional auditors appointed to audit the financial statements of a government organization. (« vérificateur externe »)

"**government organization**" means a department, government agency or fund included in the summary financial statements of the government reporting entity referred to in clause 65(1)(b) of *The Financial Administration Act*. (« organisme gouvernemental »)

"**public money**" means public money as defined in *The Financial Administration Act*. (« fonds publics »)

"**recipient of public money**" means

(a) a person, organization or other body

(i) that has received, directly or indirectly, a grant, loan or advance from the government or a government organization,

(ii) to whom the government or a government organization has transferred property for no consideration or consideration substantially less than its fair market value, or

(iii) for whom the government or a government organization has guaranteed the performance of an obligation or given an indemnity,

(b) a business entity or organization that has received a tax credit under a Manitoba law, or

Appendix D (cont'd.) | The Auditor General Act (cont'd.)

(c) a business entity or organization that has issued a share, debt obligation or other security, if a person is eligible for a tax credit under a Manitoba law in respect of that acquisition or ownership of the security,

but does not include a government organization. (« bénéficiaire de fonds publics »)

PART 2

AUDITOR GENERAL

Appointing the Auditor General
2(1) On the recommendation of the Standing Committee of the Assembly on Legislative Affairs, the Lieutenant Governor in Council must appoint an Auditor General of Manitoba, as an officer of the Assembly, to provide the Assembly with independent information, advice and assurance under this Act.

Role respecting government policy objectives
2(2) Nothing in this Act is to be interpreted as entitling the Auditor General to question the merits of policy objectives of government.

S.M. 2004, c. 42, s. 97.

Appointment process
3(1) The President of the Executive Council must convene a meeting of the Standing Committee on Legislative Affairs if

(a) the office of Auditor General is vacant;

(b) the term of the Auditor General in office will expire within 12 months; or

(c) the Auditor General has resigned and the resignation takes effect within 12 months.

Recommendations of committee
3(2) The Standing Committee on Legislative Affairs must consider candidates for the position of Auditor General and make recommendations to the President of the Executive Council.

Meetings of committee
3(3) To carry out its responsibilities, the Standing Committee on Legislative Affairs may meet during a session of the Legislature or during a recess after prorogation.

No other public office
3(4) The Auditor General may not be nominated for, be elected as, or sit as a member of the Assembly, and may not hold any other public office or engage in any partisan political activity.

S.M. 2004, c. 42, s. 97.

Term
4 The Auditor General is to hold office during good behaviour for a term of 10 years, and may be reappointed for further terms of 10 years each.

Salary
5(1) The Auditor General must be paid a salary within the range of salaries paid to senior deputy ministers in the civil service, and is entitled to the same privileges of office as a senior deputy minister.

No reduction in salary

5(2) The Auditor General's salary must not be reduced except by a resolution of the Assembly carried by a vote of 2/3 of the members voting.

Civil Service Superannuation Act applies
6(1) The Auditor General is an employee within the meaning of *The Civil Service Superannuation Act*.

Civil Service Act does not apply
6(2) *The Civil Service Act*, except sections 42 and 43, does not apply to the Auditor General.

Suspension or removal
7(1) The Lieutenant Governor in Council may suspend or remove the Auditor General from office on a resolution of the Assembly carried by a vote of 2/3 of the members voting.

Suspension if Assembly not sitting
7(2) When the Assembly is not sitting, the Lieutenant Governor in Council may suspend the Auditor General for cause, if advised to do so in writing by a majority of a committee consisting of the President of the Executive Council and the recognized leaders of the members belonging to the political parties in opposition. But a suspension imposed when the Assembly is not sitting may not continue beyond the end of the next sitting.

Deputy Provincial Auditor General
8(1) On the Auditor General's recommendation, the Lieutenant Governor in Council may appoint a Deputy Auditor General in accordance with *The Civil Service Act*.

Duties
8(2) If the Auditor General is absent or unable to act or if the office is vacant, the Deputy Auditor General has the powers and must carry out the responsibilities of the Auditor General.

Salary in certain cases
8(3) During any period that the Deputy Auditor General must assume the Auditor General's responsibilities for an extended period, the Lieutenant Governor in Council may direct that the Deputy be paid a salary within the same range as the Auditor General.

No other public office
8(4) The Deputy Auditor General may not be nominated for, be elected as, or sit as a member of the Assembly, and may not hold any other public office or engage in any partisan political activity.

PART 3

RESPONSIBILITIES OF THE AUDITOR GENERAL

AUDIT OF ACCOUNTS AND FINANCIAL STATEMENTS

Audit of government accounts
9(1) The Auditor General is the auditor of the accounts of the government, including those relating to the Consolidated Fund, and must make any examinations and inquiries that he or she considers necessary to enable the Auditor General to report as required by this Act.

Audit of other public money
9(2) The Auditor General is responsible for examining and auditing public money that is not part of the Consolidated Fund, unless an Act provides otherwise.

Appendix D (cont'd.) | The Auditor General Act (cont'd.)

Audit of the Public Accounts
9(3) The Auditor General is responsible for examining and auditing the financial statements included in the Public Accounts under *The Financial Administration Act*, and any other statements the Minister of Finance presents for audit.

Opinion about the Public Accounts
9(4) The Auditor General must express an opinion as to whether the financial statements included in the Public Accounts fairly present information in accordance with the accounting policies of the government stated in the Public Accounts and on a basis consistent with that of the preceding year, and must set out any reservations the Auditor General might have.

Report to ministers
9(5) At least once in each year, the Auditor General shall make a report about the examinations and audits conducted under this section to the minister responsible for each government organization concerned and to the Minister of Finance. The Auditor General must allow at least 14 days for those ministers to review and comment on the report before finalizing it for submission to the Assembly under subsection 10(1).

Advice to officials
9(6) The Auditor General may advise appropriate officers and employees of matters discovered in conducting examinations and audits under this section.

Annual report to Assembly
10(1) No later than December 31 in each year, the Auditor General must report to the Assembly about the examinations and audits conducted under section 9.

Content of the report
10(2) The report must indicate anything resulting from the work of the Auditor General that he or she considers should be brought to the Assembly's attention, including, but not limited to, circumstances in which

(a) required information was not provided or was not provided within a reasonable time;

(b) accounts were not properly kept or public money was not fully accounted for;

(c) essential records were not maintained, or the rules and procedures applied were insufficient, to

(i) safeguard and control public property,

(ii) secure an effective check on the assessment, collection and proper allocation of revenue, or

(iii) ensure that expenditures were made only as authorized;

(d) public money was expended for purposes other than those for which it was appropriated by the Legislature;

(e) financial and administrative provisions of Acts, regulations, policies and directives were not complied with.

Report may include recommendations
10(3) The report may include any recommendation the Auditor General wishes to make, and may

draw attention to and make recommendations about any audit conducted by an external auditor under section 12.

SPECIAL REPORT TO ASSEMBLY

Special report to Assembly
11 The Auditor General may make a special report to the Assembly on any matter of pressing importance or urgency that he or she considers should not be deferred until the next annual report under section 10 is presented.

AUTHORITY OVER EXTERNAL AUDITORS

Scope of an external audit
12(1) When an external auditor is appointed to audit the financial statements of a government organization, the Auditor General may require the external auditor to give the Auditor General a description of the proposed scope of the audit before the audit is begun. The Auditor General may then require changes to be made in the scope of the audit.

Further directions
12(2) Before an external auditor issues an audit opinion on the financial statements of a government organization, the Auditor General may require the external auditor to

(a) give the Auditor General a copy of the proposed audit opinion, the financial statements, and any recommendations arising out of the audit of the financial statements; and

(b) conduct additional examinations relating to the financial statements.

Audit working papers
12(3) The Auditor General may require an external auditor to give the Auditor General a copy of the audit working papers.

Audit opinion
12(4) As soon as an audit is completed, an external auditor must give the Auditor General a copy of the audit opinion on the financial statements of a government organization and any recommendations arising out of the audit of the financial statements.

Reliance on external auditor's report
13 In order to fulfil his or her responsibilities as the auditor of the government's accounts, the Auditor General may rely on the report of an external auditor of a government organization or of a subsidiary of a government organization.

AUDIT OF OPERATIONS

Audit of operations
14(1) In carrying out his or her responsibilities under this Act, the Auditor General may examine and audit the operations of a government organization with regard to any of the following matters:

(a) whether financial and administrative provisions of Acts, regulations, policies and directives have been complied with;

(b) whether public money has been expended with proper regard for economy and efficiency;

(c) whether the Assembly has been provided with appropriate accountability information;

Appendix D (cont'd.) | The Auditor General Act (cont'd.)

(d) whether the form and content of financial information documents is adequate and suitable.

Report to ministers
14(2) At least once in each year, the Auditor General shall make a report about the examinations and audits conducted under this section to the minister responsible for each government organization concerned and to the Minister of Finance. The Auditor General must allow at least 14 days for those ministers to review and comment on the report before finalizing it for submission to the Assembly.

Report to officials
14(3) The Auditor General may advise appropriate officers and employees of matters discovered in conducting examinations and audits under this section.

Report to Assembly
14(4) The Auditor General must report to the Assembly annually on the work carried out under this section, and may bring to the Assembly's attention anything he or she considers necessary, including recommendations.

AUDIT OF RECIPIENT OF PUBLIC MONEY

Audit of recipient of public money
15(1) The Auditor General may conduct an examination and audit in respect of public money received by a recipient of public money, including the matters listed in subsection 14(1), and may require the recipient to prepare and give to the Auditor General the financial statements setting out the details of the disposition of the public money received.

No obstruction
15(2) No person shall obstruct or provide false or misleading information to the Auditor General or a person employed under the Auditor General in conducting an examination or audit under this section, or conceal or destroy any records or things relevant to an examination or audit.

Offence
15(3) A person who contravenes subsection (2) is guilty of an offence and is liable on summary conviction to a fine of not more than $10,000.

Reliance on report of other auditor
15(4) The Auditor General may rely on the report of an auditor appointed by a recipient of public money.

SPECIAL AUDIT ON REQUEST

Special audit on request
16(1) When requested to do so by the Lieutenant Governor in Council or the Minister of Finance, or by resolution of the Standing Committee on Public Accounts, the Auditor General may examine and audit the accounts of a government organization, recipient of public money or other person or entity that in any way receives, pays or accounts for public money. But the Auditor General is not obliged to do so if he or she is of the opinion that it would interfere with the primary responsibilities of the Auditor General.

Report
16(2) The Auditor General must report the findings of an audit under this section to the person or body that requested the audit and to the minister responsible for any government organization concerned.

Report submitted to the Assembly
16(3) The Auditor General may submit a report of an audit under this section to the Assembly if it is in the public interest to do so, but must allow at least 14 days for the minister responsible for the government organization and the Minister of Finance to review and comment on the report before finalizing it for submission to the Assembly.

JOINT AUDIT

Joint audit
17 With respect to public money that is spent jointly, the Auditor General may undertake a joint audit with the Auditor General of Canada, an Auditor General or Provincial Auditor of another province or territory, or an auditor of a municipality.

PART 4

POWERS OF THE AUDITOR GENERAL

Access to records
18(1) Despite any other Act, the Auditor General is entitled to access at all reasonable times to the records of any government organization that are necessary for the purpose of this Act.

Access to information
18(2) The Auditor General may require and is entitled to receive any information necessary for the purpose of this Act from

(a) any person in the public service or formerly in the public service;

(b) any current or former director, officer, employee or agent of a government organization or of a recipient of public money; or

(c) any other person, organization or other body that the Auditor General believes on reasonable grounds may have information relevant to an examination or audit under this Act.

No access to Cabinet confidences
18(3) Despite subsections (1) and (2), the Auditor General shall not have access to information described in subsection 19(1) of *The Freedom of Information and Protection of Privacy Act*, except in the circumstances mentioned in subsection 19(2) of that Act.

Part V of Evidence Act powers
19 The Auditor General or his or her delegate may examine any person on oath on any matter that the Auditor General considers relevant to an examination and audit under this Act, and for that purpose the Auditor General or delegate has the powers of a commissioner appointed under Part V of *The Manitoba Evidence Act*.

Staff in government organizations
20 To carry out responsibilities under this Act more effectively, the Auditor General may place a person or persons employed under the Auditor General in any government organization, and the organization must provide the necessary office accommodation.

Security requirements
21 The Auditor General must ensure that every person employed under the Auditor General who is to examine records of a government organization complies with any security requirements applicable to persons employed in that organization.

Appendix D (cont'd.) | The Auditor General Act (cont'd.)

PART 5

GENERAL PROVISIONS

STAFF AND OFFICE OF THE AUDITOR GENERAL

Staff appointed under Civil Service Act
22(1) Officers and employees necessary to enable the Auditor General to perform his or her duties must be appointed in accordance with *The Civil Service Act*.

Civil Service Superannuation Act applies
22(2) Officers and employees of the Auditor General, including the Deputy Auditor General, are employees within the meaning of *The Civil Service Superannuation Act*.

Office of the Auditor General
23 The Auditor General is responsible for the internal operations of his or her office and for the persons employed under the Auditor General. For those purposes, the Auditor General may

(a) establish office policies and procedures consistent with practices followed by the government;

(b) charge fees for services provided by the office on a basis approved by the Lieutenant Governor in Council;

(c) delegate to any person employed under the Auditor General any responsibility or power that the Auditor General has under this Act, other than the responsibility to report to the Assembly;

(d) maintain an independent bank account; and

(e) contract for professional services.

CONFIDENTIALITY

Confidentiality
24(1) The Auditor General and everyone employed under the Auditor General shall preserve secrecy concerning all matters that come to their knowledge in the course of their work under this Act, and shall not communicate those matters to any person unless required to do so in connection with the proper administration of this Act or a proceeding under this Act, or in a court of law.

Exception
24(2) Nothing in subsection (1) limits the Auditor General's right to report under this Act on the conclusions of an examination or audit.

Working papers confidential
25 The working papers relating to an examination or audit by the Auditor General or a person employed under the Auditor General are confidential and must not to be laid before the Assembly or any committee of the Assembly.

ANNUAL REPORT OF AUDITOR GENERAL'S OFFICE

Annual audit of Auditor General's office
26(1) Each year, an auditor whose appointment is approved by the Legislative Assembly Management Commission must examine the accounts of the office of the Auditor General and prepare

a report. The Commission may also direct the auditor to conduct an audit respecting any of the matters listed in subsection 14(1).

Annual report
26(2) Before August 1 each year, the Auditor General must report to the Assembly on the operations of his or her office. The report must include

(a) information on the performance of the office; and

(b) the report on the annual audit under subsection (1).

ESTIMATES

Estimates
27(1) The Auditor General shall present annually to the Legislative Assembly Management Commission estimates of the amount of money that will be required for the purpose of this Act.

Special report
27(2) The Auditor General may make a special report to the Assembly if he or she thinks that the amount of money provided in the estimates submitted to the Legislature is inadequate.

Money
27(3) The money required for the purpose of this Act is to be paid out of the Consolidated Fund from money authorized by an Act of the Legislature.

Unexpended money to be paid into Consolidated Fund
27(4) All money which has been authorized by an Act of the Legislature to be paid and applied for the purposes of this Act that remains unexpended at the end of the fiscal year must be paid to the Minister of Finance and becomes part of the Consolidated Fund.

TABLING REPORTS IN THE ASSEMBLY

Tabling reports in the Assembly
28(1) When making a report to the Assembly under this Act, the Auditor General must submit the report to the Speaker. The Speaker must lay a copy of it before the Assembly within 15 days after receiving it if the Assembly is sitting or, if it is not, within 15 days after the beginning of the next sitting.

Distribution to members of the Assembly
28(2) On receiving a report under this Act, the Speaker must direct that copies be sent to the members of the Assembly.

Referral to Public Accounts Committee
28(3) A report to the Assembly under this Act stands referred to the Standing Committee on Public Accounts.

PROTECTION FROM LIABILITY

Protection from liability
29 No proceeding may be instituted against the Auditor General, the Deputy Auditor General, or any person employed under the Auditor General,

(a) for any act done in good faith in the performance or intended performance of a duty or in the

exercise or intended exercise of a power under this or any other Act or regulation; or

(b) for any neglect or default in the performance or intended performance or in the exercise or intended exercise in good faith of a duty or power described in clause (a).

TRANSITIONAL, CONSEQUENTIAL, REPEAL AND COMING INTO FORCE

Transitional

30 *The Provincial Auditor appointed under* ***The Provincial Auditor's Act*** *continues in office as the Auditor General under this Act as if appointed under this Act for a term that expires on the day the appointment under* ***The Provincial Auditor's Act*** *would expire.*

31

NOTE: The Schedule referred to in this section contained consequential amendments to other Acts that are now included in those Acts.

Repeal

32 *The Provincial Auditor's Act*, R.S.M. 1987, c. P145, is repealed.

C.C.S.M. reference

33 This Act may be referred to as chapter A180 of the *Continuing Consolidation of the Statutes of Manitoba*.

Coming into force

34 This Act comes into force on a day fixed by proclamation.

NOTE: S.M. 2001, c. 39 was proclaimed in force May 1, 2002.

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Appendix E

Agents

The Office of the Auditor General has continued with the policy of using the services of private sector chartered accountant firms to assist with the discharging of some of the Office's attest audit responsibilities. These firms act as Agents for the Auditor General under the authority of Section 23(e) of *The Auditor General Act*, and we wish to acknowledge their contributions in supplementing our staff resources. The following firms acted as our agents in respect of the fiscal year ended March 31, 2006:

BDO Dunwoody LLP
Deloitte & Touche LLP
Grant Thornton LLP
Haugen Morrish Angers
KPMG LLP
Meyers Norris Penny LLP

Professional Services

The following firms/individuals worked with our Office on specific engagements during the past fiscal year:

AON Consulting
Aikins MacAulay & Thorvaldson: T. Bock
Anderson, Mr. R.: 4941307 Manitoba Ltd.
Duboff Edwards Haight & Schacter: W.G. Haight
Ellement & Ellement, Actuaries
Ernst & Young LLP
Gerry Jennings & Associates: Jennings, G.
Government of Canada, Translation Services
Grant Thornton LLP
Hall, J. W.: Investment Consultant
Harris, E.: Education Consultant
Kozyrskyj, A., Health Policy Consultant
KPMG LLP
Law Reporting & Transcription
Mercer Human Resources Consulting
PricewaterhouseCoopers
Probe Research Inc.
Robert H. Management Resources
Rose Gingell Gill Reporting
Ruimy, J.
Technical Security Investigations
Thompson Dorfman Sweatman: B. Graham
TLS Enterprises: B. Suek, M. Lawrence
Wardrop Engineering Inc.: R. Haldane-Wilsone
Wood, R.: Transcriber
World Investigations Inc.

AUDITOR GENERALS of the Province of Manitoba

Over 100 Years of Service

Alexander Begg	Provincial Auditor	1876 - 1879
Walter R. Nursey	Provincial Auditor	1879 - 1888
George Black	Provincial Auditor	1888 - 1916
J. Gordon Steele	Comptroller-General	1916 - 1921
Robert Drummond	Comptroller-General	1921 - 1933
J.C.M. Ligertwood	Comptroller-General	1933 - 1936
F.B. Brisbin	Comptroller-General	1936 - 1938
C.A. Glover	Comptroller-General	1938 - 1944
George D. Iliffe	Comptroller-General	1944 - 1966
James G. McFee	Comptroller-General	1966 - 1969

Assembly Legislates Auditor Independence from Government - 1969

James G. McFee	Provincial Auditor	1969 - 1972
W.K. (Bill) Ziprick	Provincial Auditor	1972 - 1985
Fred H. Jackson	Provincial Auditor	1985 - 1992
Carol Bellringer	Provincial Auditor	1992 - 1996
Jon W. Singleton	Provincial Auditor	1996 - 2002
	Auditor General	2002 - 2006

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Copies of this report may be obtained by contacting:

Office of the Auditor General

500–330 PORTAGE AVENUE

WINNIPEG, MANITOBA CANADA R3C 0C4

PHONE: 204 945 3790 FAX: 204 945 2169

EMAIL: contact@oag.mb.ca

WEBSITE: www.oag.mb.ca